REPORT

OF

THE COMMITTEE ON FINANCE FOR THE PRIVATE SECTOR

सत्यमेव जयते

Chairman: Shri. A. D. Shroff

RESERVE BANK OF INDIA
BOMBAY

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APPENDICES

CHAPTER I

Introductory

In a press communiqué dated the 5th October 1953, the Reserve Bank of India announced the setting up of a Committee under the Chairmanship of Shri A. D. Shroff to examine how increased finance could be made available to the private sector. The communiqué reads as follows :

> The Planning Commission have assigned an important role to the private sector in the implementation of the National Plan. Investment in this sector has not, however, reached the level envisaged in the Commission's Report. The Taxation Enquiry Commission is investigating the effects of the structure and level of taxation of income on capital formation and on maintenance and development of productive enterprise. There are, however, other factors which influence investment in the private sector. With the approval of the Government, the Reserve Bank have decided to appoint a Committee to examine how increased finance could be made available to this sector through sources other than those which are under the consideration of the Taxation Enquiry Commission. In particular, the Committee will examine the possibility of providing on a larger scale bank finance for development in the private sector.
>
> The Committee will consist of :—
>
> (1) Mr. A. D. Shroff, Director, Tata Sons Ltd., Bombay. (Chairman)
>
> (2) Mr. J. V. Joshi, Executive Director, Reserve Bank of India, Bombay.
>
> (3) Mr. S. Anantharamakrishnan, Member, Local Board, Reserve Bank of India, Madras.
>
> (4) Mr. C. W. Middleton, Secretary & Treasurer, Imperial Bank of India, Bombay.
>
> (5) Mr. B. T. Thakur, General Manager, United Commercial Bank Ltd., Calcutta.
>
> (6) Mr. V. R. Sonalker, Managing Director, Industrial Finance Corporation of India, New Delhi.
>
> (7) Mr. B. K. Dutt, General Manager, United Bank of India Ltd., Calcutta.
>
> *Joint Secretaries*
> Mr. M. S. Nadkarni, Department of Banking Development, Reserve Bank of India, Bombay.
> Dr. K. S. Krishnaswamy, Department of Research & Statistics, Reserve Bank of India, Bombay.

2. It will be seen from the press communiqué that the terms of reference to the Committee were as under :

Terms of Reference

(i) to examine why investment in the private sector has not reached the level envisaged in the First Five Year Plan and in this connection to consider the factors, other than taxation, which influence investment in this sector ;

(ii) to examine how increased finance could be made available to the private sector through sources other than those which are under the consideration of the Taxation Enquiry Commission ; and

(iii) in particular, to examine the possibility of providing on a larger scale bank finance for development in the private sector.

Procedure for Enquiry

3. The first meeting of the Committee was held in Bombay on the 30th October 1953 when the Committee settled the procedure for the enquiry. As it was considered necessary that the Committee should submit its report to the Reserve Bank of India as expeditiously as possible, it was decided that no formal questionnaire need be issued but that a list of points should be drawn up for discussion with various organisations and interests to be invited to meet the Committee such as the Planning Commission, industrial interests, banking interests, insurance interests, stock exchange associations, the Industrial Finance Corporation of India and the Controller of Capital Issues. It was further decided that the Committee should visit a few important cities in India in order to suit the convenience of the individuals and representatives of institutions requested to meet the Committee.

4. The list of points drawn up for discussion with various interests has been reproduced as Appendix I to this report. In Appendix II has been given a list of the meetings of the Committee and of the discussions held by it with various individuals and representatives of organisations. A number of individuals and institutions submitted written memoranda to the Committee and a list of these will be found in Appendix III.

Meetings

5. After its first meeting held in Bombay on the 30th October 1953, referred to above, the Committee reassembled in New Delhi from the 25th November to the 1st December 1953, where it had the benefit of discussions, among others, with the Planning Commission, representatives of certain Ministries of the Government of India, the Industrial Finance Corporation of India and prominent local bankers, industrialists and economists. Subsequently, the Committee held its sittings in Calcutta from the 15th to the 21st December 1953, where a series of meetings was arranged with local industrialists, bankers, chambers of commerce and associations of tea, jute, coal and sugar industries. Among the representatives whom the Committee met here may be mentioned those of the Associated Chambers of

Commerce of India, the Bengal National Chamber of Commerce, the Indian Chamber of Commerce, the Bharat Chamber of Commerce, the Calcutta Stock Exchange Association, the Calcutta Exchange Banks' Association and the Imperial Bank of India. The Committee also held talks with the representatives of small and medium-scale industries in this area and of certain departments of the Government of West Bengal.

6. The next series of meetings of the Committee took place in Bombay between the 6th and the 22nd January 1954, where it met the representatives of banking, industrial, insurance and other interests. Of these, mention may be made of the Federation of Indian Chambers of Commerce and Industry, the Indian Merchants' Chamber, the Indian Banks Association, the Bombay Chamber of Commerce, the Indian Life Assurance Offices Association, the All-India Manufacturers' Organization, the Millowners' Association, the Shikarpuri Shroffs Association, the Bombay Shroffs Association, the Bombay Shareholders' Association, the Native Share and Stock Brokers' Association and several Officers of the Reserve Bank of India. The Committee also heard the views of the representatives of small and medium-scale industries and of certain departments of the Bombay Government. During this period, the Committee took the opportunity of discussing certain points arising from the terms of reference with Sir Jeremy Raisman, Deputy Chairman, Lloyds Bank Ltd. Thereafter, the Committee visited Bangalore and Madras from the 27th January to the 2nd February 1954 and met, among others, the representatives of State Government departments, banks and banking associations, industries, chambers of commerce and indigenous bankers. Of these, reference may be made to the Mysore Chamber of Commerce, the United Planters' Association of Southern India, the Southern India Chamber of Commerce, the Andhra Chamber of Commerce, the Madras Stock Exchange Association and the Travancore-Cochin Bankers Association.

After hearing the views of industrialists, bankers and others as stated above, the Committee met again in Bombay from the 23rd February to the 8th March 1954 and considered the various issues before it and took decisions thereon. The Committee assembled for the last time in Bombay from the 12th April to the 23rd April 1954, when it finalised its report.

Sub-Committee on "Operating Costs of Banks in India"

7. During the hearings of the Committee, it was represented by several bankers that one of the factors which was retarding banking development and the growth of banking resources in the country, and hence the ability of the banking system to provide more finance to the private sector, was the steep rise in the operating costs of banks in recent years as a result of the Awards given by various Industrial Tribunals. It was further represented that if the rising trend in the establishment charges of banks continued, the stability of the banking system itself might be endangered. In order to enable the Committee

to consider the matter in all its aspects, it was thought desirable to appoint a Sub-Committee to examine the question in detail and submit its views to the Chairman of the Committee. A Sub-Committee was accordingly appointed consisting of the following bankers :

(1) Mr. C. W. Middleton, Secretary & Treasurer, Imperial Bank of India, Bombay.

(2) Shri H. C. Captain, Managing Director, Central Bank of India Ltd., Bombay.

(3) Shri B. T. Thakur, General Manager, United Commercial Bank Ltd., Calcutta.

(4) Shri B. K. Dutt, General Manager, United Bank of India Ltd., Calcutta.

(5) Shri T. K. Ramasubramaniam, Chief Officer, Department of Banking Development, Reserve Bank of India, Bombay.

The findings of the Sub-Committee were submitted to the Committee during its penultimate session held in Bombay from the 23rd February to the 8th March 1954.

Sub-Committee on "Remittance Facilities in India"

8. In the course of discussions with the Committee, several bankers emphasised that the lack of adequate remittance facilities in India was one of the factors which compelled banks to maintain comparatively large cash and bank balances and that the capacity of banks to lend to the private sector could be enlarged if these facilities could be widened, cheapened and quickened. The Committee considered it necessary that the question should be examined in detail by a Sub-Committee and accordingly appointed a Sub-Committee with the following Members for the purpose :

(1) Shri J. N. Ahuja, Chief Accountant, Reserve Bank of India, Central Office, Bombay. (Chairman)

(2) Mr. C. W. Middleton, Secretary & Treasurer, Imperial Bank of India, Bombay.

(3) Shri B. T. Thakur, General Manager, United Commercial Bank Ltd., Calcutta.

(4) Shri B. N. Puri, General Manager, Punjab National Bank Ltd., Delhi.

(5) Shri B. K. Dutt, General Manager, United Bank of India Ltd., Calcutta.

(6) Shri T. K. Ramasubramaniam, Chief Officer, Department of Banking Development, Reserve Bank of India, Bombay.

(7) Shri V. G. Wagle, Assistant Chief Accountant, Reserve Bank of India, Central Office, Bombay.

The findings of the Sub-Committee were submitted to the Committee during its sittings held in Bombay from the 23rd February to the 8th March 1954. The views of this Sub-Committee as well as that on the operating costs of banks were taken into account by the Committee in formulating its final recommendations.

Acknowledgements

9. We wish to take this opportunity of expressing our sincere thanks to various individuals and representatives of institutions referred to above who, in response to our request, made it convenient to appear before us and give us the benefit of their views on problems connected with our enquiry. The keen interest evinced by them is borne out by the large number of detailed memoranda submitted to the Committee, which were extremely useful in connection with our deliberations. We would further like to record our warm appreciation of the courtesy and hospitality extended to us in all places which we visited in the course of our work. We are also thankful to the several Officers of the Reserve Bank of India who tendered advice on various matters which were referred to them by the Committee.

The Members of the Committee wish to express their great admiration and appreciation for the way in which the Chairman, Shri A. D. Shroff, presided over and guided the deliberations of the Committee.

CHAPTER II

Role of the Private Sector in the Five Year Plan

10. In the implementation of India's First Five Year Plan, private enterprise has been assigned a very important role. Barring a few segments, which for strategic reasons are to be wholly under Government ownership and control, "the rest of the industrial field is to be open to private enterprise, individual as well as co-operative, but the State will intervene whenever the progress of any industry under private enterprise is found to be unsatisfactory". Though there are differences in the relative importance attached to each of them in different fields of economic activity, they are visualised as complementary rather than competitive agencies for attaining the objectives of the Plan. In the agricultural sphere, for instance, while the State has assumed the responsibility for developing basic services like irrigation, power and communications, and promoting agencies for provision of finance, marketing facilities, organisational and technical advice, the actual productive activity has to be undertaken by the agriculturists themselves. In the fields of industry, banking and commerce, the responsibility for development and improvement has been vested by and large in the private sector. The State will, it is true, directly participate in the promotion of some industries ; but its main function is to be the creation of conditions which will enable the private sector to contribute its utmost to the realisation of the planned objectives. The Plan thus envisages the public and private sectors not as two separate entities, but as parts of a single organism, each contributing to and gaining strength from the development of the other.

Private Enterprise and the Plan

11. Keeping this conceptual framework of a mixed economy in view, the Committee has sought to examine possible ways and means of increasing the financial resources available to the private sector for development purposes. Pursuant to our terms of reference, we have as a rule excluded questions of taxation from our inquiry. Apart from this, all other aspects of governmental policy or administrative procedure as well as issues of an institutional character, which taken together may broadly be called the 'economic climate', have had to be considered, inasmuch as they affect directly or indirectly the availability of finance for private investment. Planning in a mixed economy necessarily involves growing interaction between the public and private sectors ; and policies and institutions directed towards furthering the programmes of one sector may, and often do, exercise a restrictive influence on the other. In such circumstances, adjustments will need to be made in both the attitudes and policies of each sector with a view to creating an atmosphere in which both may flourish. The Committee is of opinion that availability of finance is only one aspect of this climate, though an important one, and cannot therefore be tackled in isolation.

Scope of Enquiry

12. There is one other point which we should like to mention at this stage. Though the Committee's terms of reference do not specify any particular segment of the private sector, we have for several reasons concentrated on the financial problems of the private industrial sector. We have not gone into the major question of agricultural finance, since it is already covered by the Rural Credit Survey conducted under the auspices of the Reserve Bank of India. Nor have we attempted any comprehensive survey of the private trading sector, in view of the high priority assigned in the Plan to private investment in productive activity as against investment in commerce. But when, as for instance in the case of small-scale industries, weaknesses on the trading side impinge on actual or potential resources available for financing productive activity, we have examined the issues involved. In the main, therefore, we have been concerned with the means necessary for augmenting the finance available to industries—large-scale, medium-scale and small-scale—particularly through organised financial institutions.

Role of Government in the Industrial Sphere

13. The direct role of Government in industrial expansion has been enunciated in the Industrial Policy Resolution of April 1948. In terms of this Resolution, the production of arms and ammunition, atomic energy and railways are to be wholly under Government ownership and control. In regard to certain key industries like coal, iron and steel, aircraft manufacture, ship-building, etc., responsibility for further expansion is vested in the State; but in these lines of development the State might seek the co-operation of private enterprise to the extent considered necessary. The rest of the industrial field is left open to private enterprise, subject to such intervention by Government as may be considered necessary in the public interest.

Main Provisions of the Industries (Development and Regulation) Act, 1951

14. The First Five Year Plan has been formulated bearing this division of fields in mind ; consequently, the execution of development programmes relating to a large number of industries has been left to private enterprise. However, recognising the paucity of capital and finance available to the community as a whole, the Planning Commission have assigned priorities to industries *inter se*, laying emphasis on maximum utilisation of existing capacity in the case of consumer goods industries and on expansion of productive capacity and output in the case of what are broadly classified as capital goods industries. In order to ensure that these priorities are given effect to, and to prevent haphazard growth of industries, Government have enacted the Industries (Development and Regulation) Act of 1951. This Act applies to 37 industries listed in the First Schedule to the Act and all existing undertakings in these scheduled industries have to be registered with Government within a prescribed period. For establishing a new unit in these industries or for substantial expansion of existing units, a licence has to be obtained from the Central Government. To advise

Government on matters concerning the development of the industries, the Act provides for the formation of a Central Advisory Council, and such a Council has already been set up. The Act also provides for the establishment of Development Councils in the scheduled industries. The functions of the Development Councils have been specified in the Second Schedule to the Act and include, amongst other things, the task of recommending targets for production; fixing norms of efficiency ; recommending measures for fuller utilisation of installed capacity; and promoting arrangements for obtaining requisite materials and for distribution of controlled materials.

15. The Industries (Development and Regulation) Act, along with the Control of Capital Issues in operation since 1943 and other physical controls, makes it possible for Government to regulate the investment of available capital, irrespective of whether it is found from the retained profits of private industry or through new capital issues. Planning in a mixed economy requires that Government not only prevent undesired investment but also take positive steps for stimulating private savings and attracting investment into industries which have been accorded priority. The broad types of incentives that may be necessary have been indicated in the report of the Planning Commission ; and the expansion programme for industries in the private sector has presumably been drawn up on the understanding that the system of checks and incentives required to augment and canalise capital into desired directions will in fact be created.

The Five Year Programme for Private Industries

16. The programme for industries, the details of which are given in Appendix IV, covers 42 leading industries and is estimated to involve an outlay of Rs. 233 crores on expansion of industrial capacity. In addition, private industry is expected to invest Rs. 150 crores during the five year period on modernisation and replacement of plant and machinery. The Planning Commission envisage further an increase of Rs. 150 crores in working capital and an additional depreciation provision of Rs. 80 crores over and above what is allowed under the income-tax regulations. Thus the financial requirements of private industry for both fixed and working capital purposes aggregate Rs. 613 crores over the five years 1951-56.

17. This outlay is expected to be financed as follows :

(*a*)	Savings of corporate enterprises in the industrial sector (exclusive of provision for current depreciation covered by normal income-tax allowances)	Rs. 200 crores
(*b*)	New Issues	Rs. 90 ,,
(*c*)	Assistance from the public sector	Rs. 5 ,,
(*d*)	Industrial Finance Corporations	Rs. 20 ,,
(*e*)	Refunds of Excess Profits Tax deposits	Rs. 60 ,,

(*f*) Banks and other sources of short-term finance	Rs. 158 crores
(*g*) Foreign investment	Rs. 80* ,,
	Rs. 613 ,,

The Planning Commission have emphasised that these estimates are "in the nature of approximations for illustrating in broad outline the pattern of finance" visualised in the industrial sector. And they add that "within the larger framework of increases in national income and savings visualised in the Plan, the targets indicated by these estimates are capable of achievement".

Some Industries left out of the Plan

18. We should in this connection like to draw attention to an obvious but important fact. The estimates of outlay which the Planning Commission have envisaged refer to 42 specified industries only. While in some of these industries small-scale production units constitute an important element and therefore come within the purview of the Plan, there are various other small-scale industries for which no specific targets of output or of investment have been fixed. The Planning Commission have, it is true, enunciated general principles of policy in regard to promotion of small-scale industries and have provided for some assistance by the Central and State Governments for such industries. But considering their importance in the national economy,† the provision of Rs. 27·04 crores made in the Plan for aiding cottage and small-scale industries is far too little. Even if only such small-scale industries as merit support on grounds of long-term viability are taken into account, the investment required for their development and gradual integration with the rest of the industrial structure would be very considerable.

Implications of Increase in Public Investment

19. Compared to the need for accelerated development of industries in the country, and the role which private investment has played in building up the industrial structure in the past, the targets for industrial investment set in the Plan must be considered as modest, particularly in terms of present day capital costs. There is however one element which at the present time needs to be borne in mind in this connection, and that is the very substantial increase in public investment envisaged in the Plan. Provided there is a commensurate increase in both national output and national savings, the enlargement of public investment need not by itself reduce the investible resources available to the private sector. In such a situation, the problem would merely be one of devising proper agencies for mobilising savings available in the commu-

* In the report of the Planning Commission foreign investment is estimated at Rs. 100 crores (page 436). However, for financing the public sector's own investment of Rs. 94 crores in industries, the resources directly available to it are estimated at Rs. 74 crores. The shortfall of Rs. 20 crores is expected to be made up through a measure of foreign investment and domestic private resources. For the sake of convenience we have assumed that the entire Rs. 20 crores will come out of foreign investment.

† cf. Chapter IX paragraph 173.

nity and distributing them between the public and private sectors in accordance with their requirements. But if planned investment in the public sector exceeds the savings that would normally be available to it, and calls for additional measures of taxation, borrowing or deficit financing, there is inevitably a draft on savings available for investment in the other sectors of the economy—unless, of course, the additional investment is met by an equivalent reduction in consumption or an increase in resources imported from abroad. When internal policies and forces tend to redistribute incomes in favour of classes with a relatively larger propensity to consume, increased governmental outlay cannot, without an extensive system of controls, be matched by a reduction in aggregate consumption expenditure. Nor is it always possible to support the public sector's programme through import of capital and real resources from abroad. In such circumstances, increased governmental investment necessarily impinges on the resources available to the private sector for investment. All this is well known ; but we mention it here in order to stress the basic fact that there can be no increase in aggregate investment, that is to say investment in the public and private sectors taken together, unless there is an increase at the same time in domestic and/or imported savings. Financial arrangements are only a means to mobilise and direct the available savings into desired channels in the public or private sectors. Mere adjustments in them will not bring about an achievement of the investment targets if, as in India, there is a genuine shortage of savings. It is necessary to bear this in mind in assessing the progress so far made and the prospects for attaining the private sector's investment targets, however modest these targets may appear to be in the context of the needs of the country.

Progress since 1950-51

20. Judging from the trend of industrial production since the pre-Plan year 1950-51, there has been very considerable progress in certain directions. In the cotton textile industry, the present rate of output is actually higher than the target set for 1955-56. Production has been stepped up considerably in other industries also, such as sugar, soap, vanaspati, cement, fertilisers and rayon filament. But in respect of various other lines such as steel, aluminium, sulphuric acid, soda ash, and especially, engineering industries, not much has been achieved by way of increased production or increase in capacity. Indeed, we have been informed that in the case of engineering industries there has been a substantial fall in the utilisation of existing capacity itself. This has, in fact, been a factor contributing to the worsening of the employment situation in the country. Broadly, therefore, the achievement of the past three years or so consists in greater utilisation of installed capacity mainly in certain consumer goods industries. In terms of additions to the industrial potential of the country, the gains so far have been much less than are anticipated in the Plan (See Appendix V).

21. This is borne out by the data on new industrial investment in the private sector obtained by the Planning Commission. According to the figures supplied by the Planning Commission, new investment in fixed capital in industries covered by the Plan was of the order of Rs. 52 crores in the first two years of the Plan as against Rs. 233 crores envisaged for the five year period [Appendix V(A)]. Statistics relating to new capital investment in industries not covered by the Plan are not available; but in view of the increase in idle capacity and unemployment in several medium and small-scale industries, it is unlikely that there was any net investment in fixed block in the rest of the industrial field.

Shortfall in Investment on New Capital

22. Clearly, the five year targets of investment in new capital cannot be achieved unless annual investment is raised to about double the rate which prevailed in 1951-53. In the memorandum submitted to the Committee, the Planning Commission have stated that the low rate of investment in the first two years of the Plan was due to certain special factors, and that comparable investment in 1953-54 is likely to be of the order of Rs. 53 crores. The Commission have argued that the lag in the past years was very largely in the iron and steel, petroleum refining and aluminium industries; investments in these three industries amounted to only Rs. 8·07 crores in the two years 1951-53, as compared to their five year target of Rs. 116 crores. The shortfall in these industries is, according to the Planning Commission, attributable to certain special factors which are not likely to be operative in the coming years. Further, the Planning Commission have pointed out that of the projected outlay of Rs. 233 crores on industrial expansion, Rs. 20 crores were in respect of certain schemes like the manufacture of newsprint and rayon pulp, soda ash and sulphur from gypsum, which were not expected to be taken up in the first two years of the Plan as some preliminary work was required to be done. Excluding the three major industries mentioned above, new investment in fixed capital in the rest of the industries comes to Rs. 44 crores for the two years 1951-53; and if this rate is maintained, these industries would be able to reach their five year investment target of Rs. 117 crores (*i. e.*, Rs. 233 crores *minus* Rs. 116 crores for the iron and steel, petroleum refining and aluminium industries).

23. Admittedly, there is considerable force in the argument of the Planning Commission. In so far as the petroleum refining and iron and steel industries are concerned, there are reasons to expect that the rate of investment will be considerably accelerated in the future. One of the principal reasons for this is the expectation that lack of finance is not likely to be an impediment for these industries. The bulk of the investment of Rs. 64 crores in petroleum refineries is to be provided from external sources, and it may be assumed that the requisite funds will in fact be available. In regard to the iron and steel industry in the private sector, while the

Special Position of Petroleum Refining and Iron and Steel Industries

position is not so certain as in the case of petroleum refineries, part of the necessary financial resources is in sight. Against the projected outlay of Rs. 43 crores in the five year period, a loan of \$31·5 millon (Rs. 15 crores) has already been secured from the International Bank for Reconstruction and Development. The Government of India have also agreed to advance loans out of the equalisation fund to the Tata Iron and Steel and Indian Iron and Steel companies. In view of these factors, it seems reasonable to expect that once the preliminary arrangements are completed, investments in these industries will be substantially higher than in the past.

24. While there is thus some room for optimism, there are other elements in the situation which deserve attention. It will be observed from the previous paragraph that for the fulfilment of the programme of the iron and steel companies, resources that are in sight are not adequate and they will have to fall back on their own resources or on the new issues market. Similarly, very little of the planned outlay of Rs. 9 crores for the aluminium industry has materialised so far. These points are of importance inasmuch as the finance for implementing these programmes has to be found without reducing the resources available to the other industries from the average level attained in 1951-53. That there is a real danger of this happening may be seen from the Planning Commission's analysis of the manner in which the investment of Rs. 52 crores in the period 1951-53 was financed. The Commission estimate that of this amount, Rs. 22 crores were found by new issues on the capital market, Rs. 12 crores through loans from Government and from the Industrial Finance Corporation of India, and the remaining Rs. 18 crores from reserves, advances from managing agents and short-term loans. In other words, only about a third of the investment was covered by the internal resources of the industries concerned. Unless their internal resources increase, these industries will have to depend by and large on borrowing of one type or another to sustain the rate of investment reached in the past. They might find it extremely difficult to continue to borrow on the same scale if other industries such as iron and steel also enter the field as competing borrowers.

Position in respect of Modernisation and Replacement

25. We have so far been concerned with progress in respect of the expansion programme only. The Plan also envisages an outlay of Rs. 230 crores on modernisation, replacement and renewal of plant and equipment, and an additional investment of Rs. 150 crores in working capital. What the achievements have been in these directions, it is difficult to assess. No survey of the modernisation and replacement expenditures incurred since 1951-52 has so far been made; nor was it possible for the Committee to collect the necessary data from the innumerable units covered by the Plan. Some information relating to the textile industries in Bombay and Ahmedabad was, however, made available to the Committee by the Millowners' Associations in

these cities. According to the Bombay Millowners' Association, textile mills in Bombay invested Rs. 5·70 crores on modernisation and replacement in the two years 1951-53. The textile mills in Ahmedabad invested Rs. 12·28 crores mainly as replacement during the five year period 1947-52. We have had no reliable estimates of such outlays in other industries ; but several parties who appeared before the Committee were of the view that the amounts set apart for this purpose from year to year were, for various reasons, much less than the annual average envisaged under the Plan. We should like to mention in this connection that the lag in modernisation of equipment was not attributed entirely to lack of finance. Other factors, such as import restrictions, difficulties of laying-off labour, etc., have also tended to slow down the pace of modernisation. We refer to these matters again in a later chapter. But the important thing to note here is that, for whatever reasons, considerable slack remains to be made up in the remaining years of the Plan in the matter of modernisation and replacement. Assuming that the other impediments are removed, this will mean an additional draft on the financial resources of industries. Presumably, industries would prefer to draw on their own resources rather than to rely on borrowing for such investment. To the extent this happens, and unless the retained resources of industries increase as a result of adjustments in prices, costs and taxes, the capacity of industries to finance schemes of expansion out of their own resources will be reduced. Correspondingly, their need for borrowing from agencies within and without the country will increase.

Working Capital

26. The position in regard to working capital is somewhat different. The increases in output of some of the industries referred to in an earlier paragraph must have required some increase in working capital. At the same time, the fall in output in other industries, as well as the general decline in prices since 1951 must have tended to reduce the short-term financial requirements in certain directions. These factors probably cancelled each other out ; and whether or not there was an increase in the total short-term investment in industries, there was little difficulty experienced by the large-scale industries, at any rate, in obtaining short-term capital. The Committee has been impressed by the virtual unanimity of opinion on this question amongst the various parties who were examined by it. But this is not to say that all segments of the industrial sector were at all times adequately supplied with liquid resources. Real difficulties have been, and are being, experienced by several industries in procuring working capital, and we shall be referring to some of these later. There is also the more important question whether an increase in the working capital requirements of all industries consequent on a heightening of the tempo of development can be adequately met by the existing agencies. In other words, if, as envisaged in the Plan, banks and other agencies for short-term credit are called upon to supply an additional Rs. 158 crores, will they be able to do it with their present resources ? This is a

question of major importance, especially in view of the fall in the deposit resources of commercial banks in recent years which we are examining in Chapter VI.

27. To recapitulate the main points of the preceding paragraphs, while some progress has been registered in regard to investment in new capital, it has not been commensurate with the expectations ; and in order to reach the planned targets, annual investment in new capital will have to be raised to about double that in the period 1951-53. As regards investment in modernisation and replacement of equipment, very considerable leeway remains to be made up in the remaining years of the Plan. Finally, in respect of working capital, the problem has so far not proved acute for the large-scale industries. But medium and small-scale industries have suffered from lack of liquid funds ; and, further, the planned increase in working funds to sustain a higher output has yet to materialise. Thus even if, as contended by the Planning Commission, finance were not a major limiting factor so far—a view which is not substantiated by the data available to the Committee—it will undoubtedly be so in the coming years if present trends in savings and supply of liquid resources continue.

28. In the succeeding chapters, we have sought to examine the scope for augmenting the finance that could be made available to industries by different agencies. Before we pass on to these specific issues, we should like to make certain observations of a general character. We have referred at the outset to the question of the 'economic climate' necessary for a rapid growth of private investment. It is a truism that while lack of finance might inhibit investment, an increase in the supply of finance will not by itself bring about an increase in investment. Cheap or plentiful credit cannot *per se* be an incentive. Private investment will come forth only if there is an expectation of reasonable compensation for the risks it has to undertake. The investor's expectations of the returns he is likely to get on his investment are coloured not only by the purely economic factors of demand and costs but also by various political, social and psychological elements that make up the environment in which he has to function. These semi-or non-economic factors could well limit his willingness to invest and undertake risks, even when a proposition seems worthwhile on purely economic considerations. The Committee feels that in the past few years several changes have occurred in the socio-economic climate of this country which tend to discourage and discredit private enterprise. Unless these inhibiting factors are remedied, mere multiplication or strengthening of agencies supplying finance will not add much to industrial development. Some of the more important components of the present economic climate are examined in the next chapter.

CHAPTER III

Factors Inhibiting Investment in the Private Sector

General

29. The complex of economic, political and psychological conditions ruling in a community at any given time may inhibit private investment in two ways. In the first place, the willingness to invest is likely to be reduced by its aggravating the normal uncertainties and difficulties of private investment and by encouraging a deprecatory attitude in society towards the profit motive. Secondly, by contracting the savings available to the private sector, it may diminish the ability to invest. The Committee feels that in the present day conditions in India there are forces tending to depress private investment activity in both these ways. To some extent, they are manifestations of the changing conceptions, in India as elsewhere in the world, of the functions of the modern State and of social justice. These trends in social and economic philosophy have come to stay and must therefore be recognised, and it would be unrealistic to expect any major change in their direction. Further, some of the uncertainties and difficulties facing private enterprise are perhaps inevitable in a period of transition to a planned economy, and may be remedied as organisational problems are gradually overcome and greater experience of planning is gained. But we feel that the process of adjustment in attitudes and policies should and can be quickened, in order to enable private enterprise to gather momentum and contribute its utmost to the social good. We are aware that much needs to be done by the private sector itself by way of organisation and by establishment of proper codes of conduct. These aspects of the situation have been examined elsewhere in this report. At the same time, much needs to be done by Government as well to improve the climate for private investment and infuse confidence in private enterprise. Some of the more important directions in which adjustments are called for are examined below.

Threat of Nationalisation

30. There is, in the country, a widespread feeling that, despite the importance given to private investment in the Plan, private enterprise is in practice tolerated rather than accepted as an instrument of development. This stems from a variety of causes. The series of legislative measures undertaken in recent years to regulate the private sector have rightly or wrongly given rise to a popular impression that left to itself, private enterprise would not discharge its social responsibilities in a proper manner. This is reinforced by the constant threat of nationalisation overhanging undertakings in the private sector. The Industrial Policy Statement, which has indicated the fields of activity for public and private enterprises, has also affirmed the right of Government to acquire any undertaking in the public interest, or in the event of its conduct under private enterprise being considered unsatisfactory. Similarly, Section 15 of the Industries (Development and Regulation) Act empowers Govern-

ment to order an investigation in respect of any scheduled industry or undertaking if there has been or is likely to be an unjustifiable fall in output, or an unjustifiable rise in price, or a marked deterioration in the quality of its product ; or if the industry or undertaking is, in the opinion of Government, being managed in a manner likely to cause serious injury or damage to the consumers. The Act further provides that in case the directions issued after such an investigation are not carried out, Government can take over the management of that undertaking.

31. It is true that these are enabling provisions and are a corollary to the regulative functions assumed by the State under the Plan. It is also true that leading members of the Government of India have from time to time given assurance that these powers will not be used unless compelling reasons arise. But there have also been other instances where Government spokesmen have made pointed references to these statutory powers. And events like the taking over of Air Transport Companies by the Central Government and of road transport by several State Governments have added to the apprehensions of the private sector. Whatever may be the reasons for these developments, the fact remains that they have had an adverse effect on the psychological attitude of entrepreneurs. And private industry has to take account of the contingent risk of being subjected to a governmental investigation and acquisition whenever it tries to reduce its output or raise the price of its products, even when these are warranted by the forces of supply and demand. The fact that the Constitution of India provides for compensation in the event of nationalisation does not fully remove these fears. For, what, in practice, will be considered a fair compensation in respect of any particular undertaking remains uncertain ; and even when the amount of compensation is decided, lack of promptness in payment will mean the immobilisation, at least for a period, of a portion of the resources available to the private sector. These are real risks for private enterprise. The Committee is informed that the basis on which compensation has been determined for acquisition of assets in the case of Air Transport Companies and the delay in paying even this reduced compensation to the shareholders have aggravated the fears in the mind of the investing public regarding the safety and value of their investments.

32. The fear of nationalisation has tended to make entrepreneurs chary of undertaking projects in which, for technical reasons, initial investment has to be large and returns accrue only after a considerable period of time. It has also had a dampening effect on the inflow of private capital from abroad. The Committee is of the opinion that avoidance of frequent or minatory references to the statutory power of nationalisation by Government spokesmen might allay, to some extent, the fears entertained by the private investors. Also, in respect of large investments in scheduled industries which take time to fructify, it should be possible for Government to give some assurance of immunity from nationalisation, at least for a reasonable period, as has been done in the case of petroleum refineries.

33. Whilst the concept of mixed economy adumbrated in the Plan has been generally accepted, private enterprise should not be subjected to unfair competition from Government-owned units in the same industry through grant of special concession in the shape of import and export licences, differential prices, departure from commercial accounting practice, or exemptions from the operation of controls, or payment of taxes. In the recent past at least one such instance of a unit under Government control was brought to the notice of the Committee.

Procedural Uncertainties and Difficulties

34. Apart from the fear of nationalisation, there are several procedural uncertainties and difficulties which arise from the regulative powers assumed by the State. As mentioned in Chapter II, for establishing a new unit or for substantial expansion of existing units in industries covered by the Industries (Development and Regulation) Act, a licence has to be obtained from Government. If financing these projects involves floatation of new issues on the capital market, sanction for the issue has also to be obtained from the Controller of Capital Issues. And in case the projects require imported machinery or other materials, then import licences and foreign exchange have to be secured. There are thus a series of steps to be taken by any promoter of a new unit, in addition to compliance with the normal procedure laid down in the Indian Companies Act. While these regulations have the legitimate purpose of conserving domestic and foreign exchange resources, and canalising them into desired channels of activity, they have also the effect of delaying and retarding private investment. To a certain extent, this delay is unavoidable as, at each stage, the licensing authorities have to be satisfied that the project in question falls within the Plan and that it is economically both necessary and feasible. Further, doubts or disputes about these matters might arise at any stage and result in a holding up or non-issue of a licence. The Committee, therefore, considers it essential that this procedure should be simplified and rationalised so as to avoid unnecessary delay and the resulting loss on preliminary investigations, and so as to enable the promoter to keep within the arrangements made by him for purchase of capital equipment and for engaging technical staff. Proper timing, in the opinion of the Committee, is of vital importance to the successful promotion of the project; undue delay might necessitate in some cases a complete abandonment of the project.

35. We might incidentally refer to a few cases of this sort, which have been brought to the notice of the Committee. In the case of a firm which planned to set up a factory for the manufacture and bottling of certain anti-biotic drugs, permission had earlier been obtained from the Government of India and the work of erecting the necessary structures was started. With the coming into force of the Industries (Development and Regulation) Act, the firm had to obtain fresh licences under that Act. And despite the fact that the project was already under way, we are informed that all the requisite licences have not yet been issued,

with the result that part of the investment already undertaken remains unutilised. Similarly, another firm which applied for permission to manufacture penicillin jars, and made the necessary arrangements for finance, technical equipment and know-how, had to abandon the project after waiting for nearly two years for the requisite licence. Finally, a leading electric supply company had to wait from four to five months before obtaining sanction from the Controller of Capital Issues for floatation of equity capital. It may be that the experience of other applicants was different and that such cases were not many. But even a few instances of this type tend to have a disproportionate effect on the business sector, and cause hesitancy in undertaking ventures requiring permission from Government.

36. There is also another type of difficulty. The Industries (Development and Regulation) Act stipulates that a licence should be obtained for substantial expansion of an existing undertaking in a scheduled industry. It is not clear what constitutes a "substantial" expansion, and any unit trying to expand its capacity has first to ascertain whether or not a licence is required for the purpose. Even after a licence is obtained, if Government feel that within a prescribed period "effective steps" for implementing the project have not been taken, the licence may be revoked. All this implies that entrepreneurs have to keep continuous contact with the Ministries concerned, in order to ensure the issue or renewal of licences. This situation offers opportunities for malpractices. Further, these restrictions are likely to be particularly onerous to the relatively small innovator with a new and worthwhile project. The larger established firms can afford to maintain the necessary contacts and have the resources to work out all the details of the scheme, and thus reduce or avoid delay. But the smaller entrepreneurs do not always have such facilities. It was represented to the Committee by several medium and small-scale producers that they have had to incur considerable travelling expenses and wait for long periods even to secure an interview with the authorities concerned and explain their projects.

37. We appreciate that some of these delays and difficulties are due to the fact that Government are also new to the task, and are in the process of rationalising the procedure for examination and issue of licences. Also, under the present arrangements, the different aspects of a project such as its technical feasibility, dependence on foreign sources, financial arrangements, etc., have to be examined by different agencies before permission is granted. These examinations have, obviously, to be conducted at an expert level, and the shortage of properly qualified technical personnel in the Ministries also contributes to delay. We have been informed that for an examination of applications and granting of licences under the Industries (Development and Regulation) Act, the Ministry of Commerce and Industry of the Government of India takes, on an average, about three months. Further, in the case of capital issues, the time involved in disposing of applications is, we are told,

roughly two months. Since the objective of both the licensing authority and Capital Issues Control is to ensure that private investment is in accordance with the pre-determined pattern of priorities, it should be possible to co-ordinate their work, and simplify the procedure with a view to avoiding unnecessary delay.

38. We should also like to mention in this connection that in many cases, schemes for which licences are applied for are not properly worked out, so that the licensing authority has to obtain further information before taking a decision. This is a matter which could be remedied by the entrepreneurs themselves, through organising proper agencies for obtaining technical advice and assessment of prospects. The Ministry of Commerce and Industry of the Government of India have set up a development wing, manned by experts in various fields, to tender advice on technical matters to Government and to agencies like the Industrial Finance Corporation of India. The development wing has at present two sections, one dealing with engineering industries and the other with chemical industries. In order to facilitate examination of proposals submitted to this Ministry, the Committee considers it desirable that the technical organisation should be adequately strengthened. We believe that, in course of time, the specialised services of these agencies will be made available to private parties also in drawing up plans for expansion. The attitude of the departments concerned should also be to assist applicants in completing all the necessary technical details to expedite examination and disposal of applications.

Government's Labour Policy and Labour Legislation

39. A major factor impeding private investment today is the enormous change that has occurred in regard to conditions under which labour may be employed in factories and industries covered by the various legislative measures. Along with the increase in the general level of wages during the war and post-war years, a variety of additional obligations to compensate labour have been imposed by legislative measures adopted by the Central and State Governments and by the Tribunal Awards in recent years. Apart from the effect of these measures on the costs of labour to industry, they have greatly reduced the freedom of employers to adjust the labour complement or to enforce disciplinary measures or to rationalise in order to step up productivity. While it is not our purpose to sit in judgement on recent labour legislation and policy, we should like to emphasise the fact that cumulatively these have had an adverse effect on both the incentive to invest and on the resources internally available for investment. In the case of industries, including banking and insurance, covered by the Industrial Disputes Act of 1947 as amended in later years, all matters relating to labour payments or conditions of work in respect of which a dispute has arisen, or is apprehended, between the employers and the employees have, in effect, to be referred to conciliation officers, conciliation boards or Industrial Tribunals appointed by the appropriate Government for the

purpose. Several such Tribunals have been set up and Awards given in recent years on such matters as pay and allowances, hours of work, bonus, gratuities, medical facilities, etc. In assessing the capacity of any particular industry to meet the demands made on it by the employees, the Tribunals have not followed any uniform basis ; and in several cases the decisions taken by the Tribunals have had the effect not only of reducing the net distributable returns on current investment, but also of cutting into the reserves necessary for rehabilitation of plant and machinery. In the case of the Madras Electric Tramways (1904) Ltd., for instance, one of the recommendations made by the Tribunal is that 50 per cent of the funds unused in the reserves of the company provided for (1) improvement and extensions, (2) taxation and (3) general purposes should be distributed amongst the employees of that company. This is probably an extreme case ; but if such a precedent were to be established, it would act as a serious deterrent to the building up of reserves and encourage larger distribution of dividends. There are several industries in respect of which the rate of return allowed on capital employed, in calculating the bonus payable to workers, has been such as to limit seriously the capacity of the industry to undertake any programme of expansion or rehabilitation. And because of the implicit limitation put on dividends payable to the shareholders in this process, these industries have found it difficult, if not impossible, to attract new capital.

40. The attention of the Committee has been drawn to a number of Tribunal Awards which have been given in recent years. Some of these Awards show that the presiding judges have refused to accept audited accounts of companies and have recast the balance sheets of companies according to their own concepts of accounting—with the result that companies which had shown actual losses in their accounts have been adjudged as having made profits. Opinions have been expressed that employees are as much entitled to participate in the reserve funds of companies as shareholders, as for instance in the case of the Madras Electric Tramways referred to above. In some recent proceedings before Industrial Tribunals, banks and insurance companies have been ordered to produce all the books of the company for the past six or seven years for inspection by representatives of employees, without any consideration of the repercussions of the disclosure of confidential information pertaining to such credit institutions. The proceedings of such Industrial Tribunals have seriously disturbed the managements of industrial, banking and insurance companies and cannot but act as a serious deterrent to private investment in these fields. The Committee strongly feels that a stage has been reached when, unless Government take urgent action to correct these vagaries and serious anomalies in the adjudication of industrial disputes, the climate for further private investment would worsen, irrespective of whether fresh money is available or not.

41. Apart from the purely monetary burden of labour legislation and Awards, the confusion prevailing about possible liability to labour

charges contributes to an unwillingness to embark on new projects involving employment of additional workers. For once the labour force is enlarged, the employer is not free to adjust its complement in accordance with the conditions of demand or changes in technology without making himself liable to action under the Industrial Disputes Act. The inability to shed labour as a measure of rationalisation or of adjustment to market conditions has the effect of slowing down the pace of modernisation of technical equipment and increasing the difficulties of trying out new methods of production. The inflexibility of present arrangements also encourages indiscipline and inefficiency amongst employees, since these cannot be remedied through lay-off of workers, except after reference to a Tribunal.

42. All these have had the effect of preventing initiative and flow of venture capital, with deleterious consequences on expansion and modernisation. We have examined in a later chapter the effects of labour legislation and of labour Awards on the banking sector, where, in our view, a critical point has already been reached. Several other instances of the inhibiting influence of present labour regulations have been brought to the notice of the Committee. In the case of textile industry in Bombay, we are told that the industry has not been able to undertake measures of rationalisation and modernisation despite the availability of considerable financial resources for the purpose. One of the reasons adduced for this is that the industry is not permitted to import or instal automatic looms because of the consequent displacement of labour. Similar representations have been made by the jute industry.

43. We are fully aware of the fact that the employment situation in the country is difficult and that all possible efforts should be made to raise the standard of living of the large mass of employees. We are also aware of the possibility of exploitation of labour where it is not properly organised, and the consequent need for protection of the interests of workers. But as in many other things in a mixed economy, a balance has to be struck between improving the conditions of labour and leaving enough inducement for private investment. The point we wish to make is that the rate of return which entrepreneurs can obtain or expect at present is not sufficient both to satisfy all the needs of labour and to provide adequate resources and incentive for further investment. It is, therefore, necessary to ensure that along with the increase in the remuneration to labour, there is also an increase in its productivity, so that both the employers and employees might benefit. If it becomes impossible to make adjustments in labour costs and man-power employed, it will inevitably make entrepreneurs cautious and unwilling to venture into new fields.

44. We should like to draw particular attention to this fact, *viz.*, that a great deal of hesitancy on the part of the private enterprise stems from the uncertainties regarding the trend and implications of labour

legislation. Despite the setting up of Appellate Tribunals under the Industrial Disputes (Appellate Tribunal) Act of 1950 in order to secure greater uniformity in Tribunal Awards, there has not as yet emerged any proper basis of estimating the likely wage and allied liabilities in respect of new ventures. Part of the difficulty is also due to the fact that legislative measures are undertaken by both Central and State Governments and there is thus no uniformity in the legislative provisions operative in different parts of the country. In the Bombay State, for instance, employers are now required to provide housing for at least 40 per cent of their workers. In other States, employers who do not provide housing are required to contribute to Government housing projects for industrial workers on the basis of the number of workers employed by them. The Employees' State Insurance Act, 1948 and Employees' Provident Fund Act, 1952 impose further charges on the employers. While these measures may, from the welfare point of view, be good in themselves, their cumulative impact on industries is onerous, especially when the markets for their products have become buyers' markets. We should, therefore, like to urge that early steps should be taken to remove the confusions and uncertainties in regard to labour legislation and Awards and to ensure that a rise in the rewards of labour does not run ahead of the increase in the productivity of labour.

45. Although the subject of taxation policy is not strictly within the purview of the Committee, almost all the parties examined by the Committee have laid definite stress on the burden of direct taxation as an effective disincentive to further enterprise. Since the Taxation Enquiry Commission is examining the question in all its aspects, we have refrained from expressing any opinion on it, though we feel that any description of the economic climate without reference to this aspect would not be complete.

Controls affecting Particular Industries

46. Besides the elements mentioned above which affect industrial investment generally, there are some industries which are subject to special regulations such as price, production or distribution controls. Amongst these are the iron and steel, coal and cement industries in respect of which prices are fixed and distribution of the product is regulated. Price and/or distribution controls are operative in respect of caustic soda, soda ash, tanning materials, casein, non-ferrous metals, sulphur, etc., under the Supply and Prices of Goods Act, 1950. The maximum rate that an electricity undertaking can charge is stipulated under the Electricity Act, 1948. On the production side, Government have, for instance, restricted the production of dhoties by textile mills to 60 per cent of their average monthly output during 1951-52. It is true that several controls have in the recent past been relaxed or modified in the wake of increases in production and supply. Also, in certain cases, as for instance coal, the controls have benefited the producers and have prevented wasteful exploitation of natural resources. But controls

have in some cases hindered maximum mobilisation of internal resources for expansion or rehabilitation of industry. In the case of steel and electricity undertakings in particular, it has been represented to the Committee that these restrictions have not only limited the internal resources of the industries but have rendered difficult the attraction of new capital, because of the low rate of return on investment. The inhibiting effect is principally in respect of long-term financial requirements of these industries and we return to the special problems of steel and electricity undertakings in a subsequent chapter. We mention these controls here merely to point out the additional impediments which face some industries.

Trends in Savings and Investment

47. We have so far dealt with factors affecting the willingness of the private sector to invest. Some of these, such as increased labour costs and restrictions on prices, have also reduced the internal resources of enterprises that could be utilised for reinvestment. This diminution in the capacity of industries themselves to reinvest gains added importance in view of the limited scope for financing long-term investment through borrowing from private or institutional savers. It is difficult, on the basis of available statistics, to assess in any precise manner the change in the pattern of incomes in the country and its effects on savings and investment. But there are a few indicators of a shift in the distribution of incomes and in the volume of savings which may be drawn upon by the private industrial sector.

48. There is little doubt that the price rises in the war and post-war periods, along with increased taxation, have reduced the capacity of fixed-income earners to save. Again, as a result of the social and political changes which have occurred in the past few years, some of the traditional investing classes like the princes and zamindars have ceased to be substantial supporters of the investment market as in the past. The Committee is informed that as a result of the withdrawal of exemption from super-tax, some of the erstwhile large investors have become actual sellers of industrial securities. On the other hand, the upward shift in the relative prices of agricultural products and the large outlay by Governments in rural areas have added to incomes of classes with a relatively low propensity to save. Similarly, wage and allied incomes have also increased very substantially and have probably contributed proportionately more to consumption expenditure than to savings. There would thus seem to be a redistribution of incomes in favour of those classes whose propensity to save is relatively small, and whose savings are difficult to tap by the existing agencies in the private sector. It is admittedly difficult to infer from all this whether or not aggregate savings in the community have changed one way or the other or the extent of such change. But they do seem to indicate a trend which is not favourable for an increased flow of investible funds into the industrial sector, either directly or through institutions like banks and insurance compa-

nies. The downward trend in the deposits of commercial banks and the decline in activity on stock exchanges are also pointers in the same direction. There has, in consequence, been a diminution in the scope for financing private investment through floatation of issues on the market, since these issues have to depend mainly on institutional investors, the private investors having ceased to be important.

Borrowing by Governments

49. There are also other developments which are noteworthy in this connection. While commercial bank deposits have been falling, post office savings deposits have risen more or less continuously. There have also been larger investments in National Savings Certificates and similar instruments for mobilisation of small savings. These are further evidences of the transfer of incomes to those groups which save in small amounts and which prefer to lend to Government in one form or another on security considerations.

50. It has been impressed on the Committee that there are resources in the rural sector which need to be tapped through new techniques and expansion of appropriate agencies, even though there is considerable difference of opinion on the probable size of surpluses that could be mobilised. The fact that in the case of the recent loan raised by the Madras Government as much as Rs. 6½ crores consisted of subscriptions of Rs. 500 and less, a good many of which came from mofussil areas, has been cited in support of the argument that with suitable techniques idle resources in the country could be mobilised. We are also informed that small savings in the Bihar State had in the last year exceeded the State's quota of Rs. 220 lakhs by about Rs. 70 lakhs. These are certainly impressive facts. But in the case of the Madras loan, at any rate, we are informed that very considerable coercion was exercised for securing subscriptions to the loan and that a substantial part of the subscriptions had been financed through bank loans. It was stated before us that a leading bank in South India had lent about Rs. 2 crores for this purpose. A good portion of the bonds subscribed by the original investors have, it appears, been sold out in recent months to institutional investors both in Madras and outside. There is thus considerable doubt as to whether the small subscriptions initially made to the Madras loan came out of genuine untapped resources in the mofussil areas. Apart from this, the methods reported to have been followed by the State Government in obtaining these small subscriptions are not such as can be adopted by private agencies.

51. In the organised capital market also, borrowings since 1951-52 by Governments have been substantial. Even though there has been a net discharge of permanent debt on the Central Government's capital account of about Rs. 76 crores, a good part of it did not represent net payments to the public. State Governments have, in the same period, borrowed a net amount of Rs. 59 crores. There have also been in addi-

tion some sales of Government securities held in the cash balance investment accounts of the Central and State Governments. There has thus been a considerable diversion of voluntary savings into Government securities and correspondingly the resources available for investment in industrial shares and debentures have been reduced. Part of this arises from the fact that institutional investors like banks and insurance companies have to hold a portion of their investment portfolio in Government and trustee securities. Partly, it arises from lack of confidence on the part of investors in industrial securities. The violent fluctuations in the prices of such securities which have occurred in recent years and reduced confidence in industrial management as a result of malpractices of some sections of the entrepreneurial community have contributed to this preference for Government paper. We might also mention in this connection another factor of importance. Due to the delays involved in obtaining sanction from the Controller of Capital Issues for floatation of industrial securities, prospective borrowers sometimes find that they can come to the capital market only after Governments have put through their borrowing programmes. In any event, the fact remains that during the last three years the savings flowing into the organised capital market have been on a diminishing scale whereas industrial borrowers have now to face serious competition from Governments and governmental agencies. This has had the effect of limiting the scope for financing the programmes of expansion and rehabilitation of the private sector through new issues on the capital market.

What the Private Sector can do

52. While there have thus been a variety of factors outside the control of industries tending to reduce supply of investible funds on the capital market, there have also been several weaknesses within the private sector itself which have tended to make investors shy of subscribing to industrial shares and debentures. Frequent changes in managing agencies and inefficient or dishonest conduct of business in some cases have inflicted substantial losses on *bona fide* investors and have made them chary of entrusting their savings to private agencies. This is a matter in which organised bodies like chambers of commerce and manufacturers' associations, as also enlightened businessmen and industrialists, should take greater interest than they have so far done. The business community itself should inspire greater confidence in the investing public by enforcing proper discipline and codes of conduct on the management of industries and rooting out the many unhealthy practices that still prevail. It has been argued that the various controls imposed in the war and post-war years have encouraged anti-social activities and that with the relaxation or removal of controls these practices also will diminish and disappear. While we agree that the removal of controls may help in improving the position, we should like to emphasise that the existence of controls cannot be cited as a justification for unethical practices. Indeed, the business community has to recognise the fact that planning in a mixed economy necessarily involves some control and regulation of

the private sector ; and that, therefore, it is all the more necessary to exercise vigilance and discipline in such circumstances. We believe that industrial management in this country is, by and large, efficient and capable of discharging its responsibilities. But not enough is being done to convince the public at large of the business community's awareness of its social responsibilities. Cases of mismanagement and opportunism are frequent enough to shake the confidence of the public. In this connection, we should like to express the view that the contemplated amendment to the Indian Companies Act is a necessary piece of legislation and will be of help in improving standards of management and in preventing trafficking in managing agencies ; though here again apprehensions have been expressed that some of the proposed restrictions are too onerous and that it is unjust to penalise the business community as a whole for the malpractices of a few. But legislation alone will not suffice. Organised bodies of businessmen and industrialists should make all possible effort to enforce proper codes of conduct and to raise the standards of business management and morality.

53. The attention of the Committee has also been drawn to Clause 272(d) of the proposed Companies Bill which limits a public company's borrowing to an amount equal to its subscribed capital and free reserves except with the consent of the company's general meeting. Such a provision, if made applicable to banking companies, would render their working impossible as a bank mainly depends on the deposits raised by it for its working. The Committee, therefore, hopes that Government would introduce suitable amendments to the Bill at the appropriate stage so as to exempt banking companies from the operation of Clause 272(d) of the proposed Bill.

54. There is another way in which the private sector can help itself. It is true that obstacles to private enterprise have multiplied for various reasons. But, as we mentioned earlier, the change in the economic climate is due in part to a change in social views regarding the role of private enterprise. Given such a trend in society, entrepreneurs have also to make adjustments in their outlook. It would be futile to expect in the world of today conditions similar to those which prevailed in the early stages of capitalist development abroad. While the field is restricted and the freedom of action curtailed, there are still opportunities for private initiative and endeavour. We believe that despite all the handicaps enumerated above, if private enterprise would only continue to have faith in itself and display the same spirit of venture as it has hitherto done, it is capable of exploiting existing opportunities and exploring new avenues to a larger extent, thus inspiring greater confidence and support amongst the general public for the private sector.

55. We have dealt with these general points at some length because, in our judgement, they are cumulatively responsible in as great a measure as lack of finance for the depressed state of private enterprise.

Without an adjustment in some of these basic conditions, expansion and improvements on the financial side will not ensure rapid progress. But given a spirit of accommodation and given joint effort by the public and private sectors to reduce or remove the inhibiting influences as much as possible, better and wider facilities for provision of finance for investment will have an added incentive effect.

CHAPTER IV

Existing Agencies for Industrial Finance in India

Types of Finance Required by Industries

56. Before describing the existing agencies in India for the provision of industrial finance, we may refer briefly to the different types of capital required by industries. In general, industries need two types of capital, namely, (*a*) fixed or long-term capital for the purchase of block assets such as land, machinery and buildings, and (*b*) working or short-term capital for financing stocks of raw materials, stores and finished products and for meeting day-to-day requirements. In addition, they require capital for extension and replacements which is usually of a long-term nature though a part of it may be considered to be medium-term. Even as regards working capital, that part of it which is necessary for holding a minimum level of raw materials, stores and finished goods in an industry is sometimes regarded as long-term in character and only the balance treated as short-term capital.

57. Although there is no unanimity of opinion regarding the periods for which short-term, medium-term and long-term capital is required by industries, we may, following the view adopted by the Committee on State Industrial Finance Corporation in West Bengal (1951), regard short-term credits as those lent for periods upto one year, medium-term credits as those advanced for periods ranging from one year to ten years and long-term credits as those made for periods over ten years.

Agencies for Industrial Finance

58. As already indicated in Chapter II, the proposed investment in fixed and working capital for industries in the private sector amounts to Rs. 613 crores during the five year period 1951-52 to 1955-56. The principal sources for this, apart from the savings of the industries themselves, are (*i*) the investing public, (*ii*) managing agents, (*iii*) institutional investors such as commercial banks, insurance companies and investment trusts, (*iv*) statutory finance corporations like the Industrial Finance Corporation of India and State Financial Corporations, (*v*) the Central and the State Governments, (*vi*) indigenous bankers and money lenders, (*vii*) co-operative banks and societies, and (*viii*) foreign investment. Some of the above agencies provide both short-term and long-term capital to industries. While detailed statistics are not available in all cases regarding the amount of finance invested in or lent to industries by these agencies, an attempt has been made below to indicate broadly the part played by them in industrial finance on the basis of available information.

59. The initial finance required by industries is usually raised by them by way of share capital. Additional capital may be found by the issue of further shares, ordinary or preference or debentures or by ploughing back a part of the profits. Although until the last few years, the market for equities was gradually broadening in India, it may be said that, in general, it has been more difficult to raise equity capital in India than in the more industrialised countries in the West. The following table shows the paid-up capital of joint stock companies in India in recent years :

Investing Public

TABLE I

As on 31st March	Number of joint stock companies at work	Paid-up capital (In crores of rupees)
1939	11,114	290
1946	17,343	424
1947	21,853	479
1948	22,675	570
1949	25,340	628
1950	27,200	722
1951	28,529	772

Source : Government of India—Monthly Abstract of Statistics, December 1953. (Figures upto 1947 relate to undivided India. Figures from 1948 are provisional.)

The above figures show the position only up to the 31st March 1951 ; part of the increase, however, is attributable to the issue of bonus shares. Figures for later years are not yet available. The representatives of industries, stock exchanges and chambers of commerce who met the Committee, however, have been almost unanimous in their view that it is now extremely difficult to raise new capital in any appreciable amounts except, perhaps, for the very best companies. Some idea of the progressive deterioration in the conditions in the capital market can be obtained from the following figures of the consents granted for new issues by the Controller of Capital Issues under the Capital Issues (Con-

tinuance of Control) Act, 1947, and of the actual amounts raised by such companies as have furnished the relevant returns.

TABLE II

Year	Consents granted by the Controller		Amount of paid-up capital raised	
	Number of companies	Amount in crores of rupees	Number of reporting companies	Amount in crores of rupees
1948	375	125·66 (23·39)	179	25·93
1949	326	63·03 (10·08)	222	30·79
1950	263	74·75 (8·55)	262	45·49
1951	343	59·55 (10·77)	279	25·76
1952	254	39·79 (7·77)	116	11·03

Bonus issues are shown in brackets.

Source : Figures furnished to the Committee by the Controller of Capital Issues, Government of India, New Delhi. Figures are provisional and incomplete.

It will be obvious from the above figures that the amount of capital sanctioned bears little relation to the actual amount of capital raised. Taking an average of the five years 1948-52, the annual amount sanctioned was Rs. 73 crores, whereas the amount of capital actually raised works out to an average of a little under Rs. 28 crores.

Inadequacy of Statistical Organisation

60. A comparison of the figures given in Table I with those in Table II also reveals several discrepancies. Thus, while the amount of paid-up capital raised by reporting companies during the years 1948 to 1951 has aggregated Rs. 127.97 crores according to Table II, the total of the paid-up capital of joint stock companies at work, according to Table I, has increased from Rs. 570 crores on March 31, 1948 to Rs. 772 crores on March 31, 1951 or by Rs. 202 crores. This discrepancy appears to be due, among others, to the following factors. In the first place, a number of companies which were granted permission to issue capital have not reported to Government the amount of capital raised by them. Secondly, the consent of Government is not required for certain types of capital issues of less than Rs. 5 lakhs in terms of the Capital Issues (Exemption) Order, 1949. Even so, the difference between the figures is so large as to detract greatly from the value of the figures as an indicator of trends in the capital market. The Committee therefore suggests that the Reserve Bank of India should take up with Government the question of obtaining promptly and systematising data relating to joint stock companies in India. Now that the Companies Bill, 1953, is

already before Parliament, Government may also consider whether it is necessary for them to assume more powers to obtain promptly the requisite statistical data from joint stock companies.

From Table II it will also be seen that out of 1561 companies which were granted permission by Government to raise capital during the years 1948 to 1952, only 1058 companies have reported the actual amount of capital raised by them. The Committee feels that Government should build up an adequate organisation to follow up the consent orders and obtain periodical reports from companies as to the progress made by them in raising capital. Further, when sanction is given by Government to raise capital for a particular purpose and the company concerned is not able to utilise the money for that purpose due to the non-availability of machinery or other reasons, the capital raised becomes immobilised or used for a purpose other than that specified at the time of obtaining the sanction. The Committee is of the opinion that in such cases Government should have the powers of liquidating the company and returning the capital raised to the shareholders.

Managing Agents

61. We shall now revert to the question of the existing agencies in India for the provision of industrial finance. A unique feature of industrial organisation in India is the system of managing agents. These agents, besides being responsible for the promotion and the management of companies, also act as financiers and as guarantors of loans advanced to the companies by commercial banks. Some of the managing agency houses and their companies also attract term deposits from the public. The importance of managing agents in the industrial structure of the country is evinced by the fact that most of her large-scale industries were promoted and are still being managed by some firm or company of managing agents.

Commercial Banks

62. Joint stock banks in India play a vital role in the finance of industries, though, in consonance with the practice of commercial banks, their industrial advances are, as a rule, confined to the provision of working capital. According to the weekly returns submitted under the Reserve Bank of India Act as at the end of March 1954, there were 89 scheduled banks operating in the country with total demand and time liabilities aggregating Rs. 848 crores. The total number of their offices and branches was 2,830 including 102 branches outside India. As on the 30th June 1953, the latest date for which figures are available, the advances of scheduled banks to industries amounted to Rs. 188.98 crores, forming 34.7 per cent of their total advances. Besides making short-term advances, the banks also take part indirectly in the long-term finance of industries through the purchases of the shares and debentures

of industrial concerns. According to the latest available figures, the investments of scheduled banks in shares and debentures of joint stock companies as on the 30th June 1953 aggregated Rs. 11.56 crores, bearing a ratio of 3.1 per cent to their total investments. The banks also make advances to customers of standing against the pledge of shares and debentures, the amount of such advances as on the 30th June 1953 being Rs. 42.31 crores, or 7.8 per cent of their total advances.

63. The First Five Year Plan envisages an expansion of Rs. 158 crores in the advances of commercial banks and other sources of short-term finance. A substantial portion of this will clearly have to be provided by commercial banks. Since banks usually limit their advances to 50 to 55 per cent of their deposits, with a maximum of about 60 per cent during the busy season, and since their industrial advances form about one-third of their total advances, an increase in commercial bank advances to industries of the order envisaged in the Plan will require a substantial expansion in their deposits or a diversion of resources from other types of assets such as investments in Government securities or advances to trade, to industrial advances. During the last few years, the deposits of banks in India have been stagnant and have even shown a small decline. In order, therefore, that the banking system may play its role in financing development, it is of paramount importance that its resources should be substantially increased. This aspect of the question will be dealt with in detail in a subsequent chapter.

Insurance Companies

64. Insurance companies in India have come to play an increasingly useful role in the provision of industrial finance through their investments in the shares and debentures of well-established companies. As on December 31, 1952, out of the total assets of Rs. 292.92 crores, the investments of Indian insurance companies in shares and debentures amounted to Rs. 41.79 crores. Of this amount, debentures accounted for Rs. 13.15 crores, preference shares Rs. 10.90 crores and ordinary shares Rs. 17.74 crores. As compared with insurance companies in the more industrialised Western countries, their counterparts in India invest a comparatively small proportion of their assets in shares and debentures. Quite apart from the restrictions imposed by the Insurance Act, the representatives of certain leading companies who met the Committee pointed out that this state of affairs is partly due to their unhappy experience in the past of the heavy depreciation in the value of such investments. During the last two years, however, insurance companies have played a somewhat more active role in providing industrial finance, and according to the evidence placed before the Committee, they have taken up a substantial proportion of recent debenture issues.

65. It has already been indicated above that, with the exception of companies associated with leading managing agents, industries in India generally find it difficult to raise long-term capital. In order to make such capital more readily available to industrial concerns, particularly in circumstances where normal banking accommodation is considered inappropriate or recourse to capital issues impracticable, the Central Government set up in 1948 the Industrial Finance Corporation of India under a special Act of the Legislature. In 1951, the Parliament passed the State Financial Corporations Act with a view to enabling State Governments in India to set up similar Corporations for providing long-term finance to medium and small-scale industries.

Industrial Finance Corporation of India and State Financial Corporations

66. The Industrial Finance Corporation of India has an authorised capital of Rs. 10 crores, of which Rs. 5 crores has been issued and paid up. The capital has been subscribed by the Central Government, the Reserve Bank, scheduled banks, insurance companies, co-operative banks and other financial institutions. The Central Government has guaranteed the repayment of the share capital as well as a minimum dividend of 2½ per cent thereon. The Corporation is authorised to make long-term advances to industrial companies for periods not exceeding 25 years, to guarantee loans raised by them in the public market and to underwrite shares and debentures issued by eligible companies, provided such shares and debentures are disposed of within a period of seven years. It is also authorised to issue bonds and debentures which are guaranteed by the Central Government. Under Section 21 of its Act, the amount of bonds and debentures it can issue, together with contingent liabilities, is limited to five times its paid-up capital and the reserve fund. The Corporation can also accept term deposits upto Rs. 10 crores and borrow from the Reserve Bank of India against its bonds upto Rs. 3 crores. According to its balance sheet as on June 30, 1953, the Corporation had issued bonds amounting to Rs. 5.81 crores and made loans and advances to industries aggregating Rs. 9.87 crores, the relative figures as at the end of March 1954 being Rs. 7.81 crores and Rs. 11.20 crores respectively.

67. Under the State Financial Corporations Act, 1951, Financial Corporations have so far been established in the States of Punjab, Bombay, Hyderabad, Saurashtra, Travancore-Cochin and West Bengal. Details of the capital structure of these Corporations have been given in Appendix VI. The capital of these Corporations is subscribed by State Governments, the Reserve Bank, scheduled banks and other institutional investors and the general public. The repayment of the capital and a minimum dividend thereon are guaranteed by the respective State Governments. A number of other State Governments including Assam, Bihar, Madhya Pradesh, Mysore, Orissa and Uttar Pradesh are contemplating the establishment of similar institutions.

Central and State Governments

68. Apart from the financial assistance to industries that is now being provided through statutory Corporations, the Central and State Governments have been making available a limited amount of finance to industries through budgetary allocations. Details of the assistance to industries by the Central and State Governments are given in Appendix VII (*a*) and (*b*) ; it will be seen that assistance to private industry, including investments in shares of companies, loans and grants during 1951-52 was of the order of Rs. 13 crores.

69. The assistance to industries by State Governments includes amounts advanced under the various State Aid to Industries Acts. According to available information, State Aid to Industries Acts at present obtain in the States of Bihar, Madhya Pradesh, Madras, Mysore, Orissa, Punjab, PEPSU and West Bengal. In certain other States such as Assam, Bombay, Madhya Bharat and Uttar Pradesh, the provision of financial assistance is governed by Rules framed by the Governments. In Hyderabad State, however, financial aid to industries is administered through the Industrial Trust Fund, which is a State-owned institution.

70. In general, the State Aid to Industries Acts or Rules provide for assistance to new or nascent industries, for industries to be newly established in an area where such industries are undeveloped, or cottage industries including those which need revival or development. The assistance to be given by the State Government may take the form of loans, guarantee of loans raised from banks, grant of raw material and land at favourable rates, supply of machinery, guarantee of minimum return on shares and debentures, etc. The period of loans generally varies from 10 to 20 years.

71. If the purpose underlying the State Aid to Industries Acts and Rules was to render any significant assistance to industry, in actual practice the results have been disappointing, except perhaps in a few States like Hyderabad, Madras and Travancore-Cochin. From the figures given in Appendix VIII, it will be seen that the quantum of assistance made available to industries by State Governments, during the quinquennium 1945-50, has been relatively small, the amount of loans outstanding on the 31st March 1950 being Rs. 3·82 crores for six Part 'A' and two Part 'B' States.

Indigenous Bankers and Moneylenders

72. Statistical information regarding the amount of advances made to industries by indigenous bankers and moneylenders is not available. From the evidence placed before the Committee, however, it appears that some of the indigenous bankers like the Multani shroffs make advances to small-scale and medium-scale industries for purposes of working capital. The amount of loans advanced by these shroffs is stated to be about

Rs. 20 crores at any time but it is not known how much of this represents industrial advances. Similarly, the representatives of the Bombay Shroffs Association stated that small industries were obtaining considerable accommodation from their members. However, while the annual turnover of the members of the Association, as stated by them, is estimated at Rs. 100 crores—which the Committee understands is principally for financing internal trade—no figures are available regarding the amount of finance lent by them to small-scale industries to meet the requirements of working capital.

Industrial Co-operatives

73. During recent years, industrial co-operatives have been playing an increasingly important role in providing finance to cottage industries. Among these, the most important group is the weavers' societies. Other industrial co-operatives include those of metal workers, oilmen, tanners and leather-workers, coir and rope-makers, hand-spinners, potters, tape-weavers, etc. The main functions of an industrial co-operative are (*a*) to purchase raw materials and appliances for an industry and to retail them for cash or credit to members, (*b*) to raise money for the industry by the issue of shares or raising deposits, (*c*) to convert raw materials into finished goods and pay wages for such conversion at the prevailing market rate, and (*d*) to market finished products for members on the most favourable terms possible. The societies depend on district central co-operative banks for their financial requirements. At the end of June 1952, there were 5,154 weavers' societies operating in India with a membership of 686,154 and a working capital of Rs. 6·60 crores. Industrial societies other than weavers' societies as on the same date aggregated 2,498 with a membership of 151,910 and a working capital of Rs. 2·05 crores. Total sales during the year 1951-52 amounted to Rs. 17·19 crores in the case of weavers' societies and Rs. 2·36 crores in the case of other societies (*Vide* Appendix XVII).

Availability of Finance for the Various Classes of Industries

74. From the evidence submitted to the Committee, it would appear that so far as equity capital and long-term finance are concerned, all classes of industries, whether large-scale, medium-scale or small-scale, are experiencing difficulties, except perhaps the leading companies who are able to raise moderate amounts of such finance. This is not merely due to an over-all shortage of capital, but also to the general unfavourable climate for investment on account of which even such capital as is available is not forthcoming for long-term investment in industry. As regards working capital, it seems that large-scale industries, in general, do not suffer from any shortage, but the problem is acute for medium-scale and small-scale industries. From the point of view of total output and employment, the latter classes of industries are even more important than the large-scale units. According to the information submitted to the Committee, however, the difficulties of the medium-scale and small-scale units are

not purely financial, but also relate to technical and managerial assistance and marketing. Finally, with regard to cottage industries, the problems are not only financial and technical, but also of effective co-ordination and integration with the larger units.

75. From the above brief survey of existing agencies in India, it will be seen that facilities for raising capital in India are in many respects inadequate. Apart from the question of 'climate', there is a relative absence in the Indian capital market of promoting, issuing and underwriting agencies. Some of the managing agency firms no doubt act as promoters and a few stock and finance brokers as underwriters, but there is a comparative shortage of institutional investors such as issue houses and investment trusts. As regards the short-term money market, we have already indicated that, while the banks are in a position to meet the existing demands for working capital to large-scale industries, the possibility of the banking system and other sources of short-term finance fulfilling the target in the Plan of an increase of Rs. 158 crores in their industrial advances will depend largely on their ability to expand their resources. In order to make good the shortfall in the supply of finance and to support continuous expansion of investment activity, there is need, not only for expanding credit supply in the country, but also for making it flexible enough to facilitate a quick adjustment between demand and supply in different segments.

CHAPTER V

Credit Expansion and Development

76. In a country like India, where the saving and investment habits are not fully developed, financial policy has to be realistic and adapted to the needs of the situation. As the Planning Commission have put it, in the process of development, "judicious credit creation somewhat in anticipation of the increase in production and the availability of genuine savings has also a part to play, for it is conceivable that without this kind of an initial push, the upward process may not start at all or may fail to gather momentum". Such a policy will, at any rate, create conditions in which investment will not be hampered on account of shortage of liquid resources. In practice, this will require not only an addition to money supply, but also an increase in the velocity of circulation of money. Admittedly, Government can, through borrowing from the Reserve Bank, bring about as large an increase in money supply as they desire. But a correct policy requires that the creation of money does not set in motion inflationary forces of such a magnitude as will defeat the basic purpose of monetary expansion, namely, encouragement of savings from current income and investment in productive uses. It is, therefore, necessary at each stage to take stock of the situation and assess what further scope there is for adding to the money and credit resources. But money supply should not fall behind the actual demand for money. Finance, if it should adequately perform its function as a catalytic agent, has to be elastic enough to sustain genuine activities of production and trade on an upward trend.

77. There is general agreement today that the supply of money and credit in India needs to be adjusted to meet the requirements of the public and private development programmes. Money supply with the public was brought down steeply in 1951-52 in order to counter the post-Korean inflation. Since then, production in several fields of economic activity has increased, and there has been an abatement of inflationary pressures from abroad. Also, the employment situation in the country is such as to cause considerable concern. These factors, as well as the need to step up development outlays in both the public and private sectors in order to achieve the planned targets, warrant adjustments on the monetary front. Measures such as the Bill Market Scheme have, to some extent, added to the flexibility of the monetary system, and the busy season expansion in money supply has tended to increase from year to year. However, there is a general feeling in the country that economic activity can be further stimulated by an increase in effective demand through activation of idle balances and deficit spending by Government.

78. The decision of Government to resort to deficit-financing of public expenditure in 1954-55 in a measure greater than in the past, and the favourable reactions in the country to Government's decision,

are evidences of this. According to the budget estimates, the Central Government propose to incur an overall deficit of Rs. 250 crores in 1954-55. While a part of this may be offset by a balance of payments deficit, there is no doubt that if the estimated deficit materialises, the activities of the public sector will have added to aggregate purchasing power in the country. This should have a tonic effect on the economy and stimulate further activity in the private sector. Payments made by Government to suppliers of goods and to contractors add more or less immediately to the cash or deposit resources of commercial banks and thus provide a base for expansion of bank advances and investments. However, a substantial part of Government expenditure is likely to add to the incomes of rural and wage-earning classes, and the extent to which it will seep through to the organised credit sector may be limited and may involve a considerable time-lag. Despite increased Government spending, therefore, productive activities which are financed, by and large, through bank credit or through borrowing from other financial institutions may not be adequately supplied with funds. Unless the savings generated by Government spending amongst the rural and wage-earning classes are drawn into organised money and capital markets to which all segments of the economy have access, deficit-financing will not by itself solve the credit problems of some of them at least. In making arrangements for the provision of finance to the private sector, this point has to be borne in mind.

79. The Reserve Bank of India has, in this context, special obligations. As the central bank of the country, it has the monopoly of note issue and can, therefore, directly affect the amount of currency in circulation. It has also statutory powers of control and regulation over the banking system ; through the exercise of these powers and with the prestige it enjoys, it can affect both the size and the pattern of bank advances. In the exercise of these powers the Reserve Bank has doubtless to bear in mind the overall implications of an expansion of liquid resources available to the community. But it has also to guard against rendering the monetary mechanism not flexible enough to meet the demands of an expanding economy. Until 1952, the emphasis of Reserve Bank policy was rightly on the former aspect of monetary policy. But the position now is different, inasmuch as the Indian economy is no longer in a stage of inflation. In this altered situation and in view of the fact that the Reserve Bank has enough powers and experience to control undue monetary expansion, if necessary, there is room for a more active policy on the part of the Reserve Bank.

80. Certain steps have already been taken by the Reserve Bank to increase the availability of finance. Following the change in the open market purchases policy of the Reserve Bank in November 1951, a Bill Market Scheme was introduced in January 1952, to enable commercial banks to borrow from the Reserve Bank for meeting their busy season demands. Initially, the Reserve Bank agreed to grant advances

under Section 17(4)(*c*) of the Reserve Bank of India Act to banks having deposits of Rs. 10 crores or more, by way of demand loans on the security of ninety days usance promissory notes of their constituents. Bills arising out of *bona fide* commercial or trade transactions and bearing two good signatures one of them being that of a scheduled bank are eligible for rediscount at the Reserve Bank. Advances against such bills were made at one-half per cent below the Bank Rate ; minimum limits of Rs. 25 lakhs for each advance and of Rs. 1 lakh for each bill were also fixed. Further, the Reserve Bank agreed to bear half the stamp duty incurred by banks in converting their advances into usance bills. Consequent upon representations by the banking community and with the experience gained in the first year, the facilities under the Bill Market Scheme were extended in June 1953 to licensed banks with deposits of Rs. 5 crores or more. The other minimum requirements remain unchanged, and further adjustments may become possible as the Reserve Bank and the banks gain more experience of the scheme. Some modifications in this respect have been suggested to the Committee by several parties and these are examined in Chapter VI. However, even in its present form, it has been a very welcome addition to the money market of the country and has been of substantial help to the commercial banks. Gross borrowings under this scheme amounted to Rs. 60·8 crores in the period January-June 1953, as against Rs. 74·0 crores in the corresponding period of 1952 ; and in the first quarter ended with March 1954 gross borrowings aggregated Rs. 42·57 crores. The highest amounts outstanding under this head during the years 1952 and 1953 were Rs. 29·6 crores and Rs. 20·3 crores respectively ; the maximum reached so far during the current year has been Rs. 20·20 crores.

81. The Reserve Bank has also taken a number of steps in pursuance of the recommendations of the Rural Banking Enquiry Committee (1950) and the Informal Conference on Rural Finance (1951). These have included larger financial accommodation to state co-operative banks, extension of the operations of the Reserve Bank to Part 'B' States and opening of more branches of the Imperial Bank of India in relatively underbanked areas in Part 'A' and 'C' States. As a result of procedural changes introduced in the latter part of 1951, the state co-operative banks are allowed greater freedom in the operation of credit limits granted to them by the Reserve Bank. The period for which accommodation is made available by the Reserve Bank for financing seasonal agricultural operations and the marketing of crops has been raised from 9 months to 12 months in normal cases and 15 months in exceptional instances. The number of state co-operative banks to which credit limits are sanctioned has also increased in the past few years, and total credit limits granted to state co-operative banks in 1952-53 amounted to Rs. 13·12 crores. The Reserve Bank has continued to provide this financial accommodation at a concessional rate of 1½ per cent. Also, since November 1951, state co-operative banks have been placed on the same footing as scheduled commercial banks in regard to purchase,

sale or rediscount of bills of exchange and promissory notes arising out of *bona fide* commercial or trade transactions.

82. Following the agreements so far reached with five of the seven Part 'B' States excluding the State of Jammu and Kashmir, the Reserve Bank has established currency chests at selected centres in these States, in order to facilitate transaction of Government business which it has taken over directly or through agents. Further, in line with the understanding reached between the Reserve Bank of India and the Imperial Bank of India for opening branches of the latter in places where banking facilities were inadequate and/or where Government transactions were considerable, 26 branches of the Imperial Bank had been opened by the middle of 1953. In addition, 8 treasury pay offices have been converted into branches. In the second phase of the expansion programme, covering the period July 1953 to June 1956, it has been tentatively agreed that 80 more branches (including the conversion of 5 treasury pay offices) should be opened by the Imperial Bank. For the conduct of Government business at branches opened on or after July 1, 1951, the Reserve Bank has agreed to pay a turnover commission at an enhanced rate of 1/16th of one per cent.

83. In the field of industrial finance, the Reserve Bank has been taking an active part in the promotion of financial corporations. It has contributed Rs. 1·03 crores towards the paid-up capital of the Industrial Finance Corporation of India ; and it has contributed altogether Rs. 95 lakhs towards the share capital of the State Financial Corporations started in Punjab, Bombay, West Bengal, Saurashtra, Travancore-Cochin and Hyderabad. With the establishment of finance corporations by other States, there will doubtless be an increase in the Reserve Bank's investment in these institutions. Besides contributing to the share capital, the Reserve Bank has taken up the bonds of the Industrial Finance Corporation of India. With the amendment of the Industrial Finance Corporation Act in 1952, the Industrial Finance Corporation of India is authorised to borrow funds from the Reserve Bank against specified types of securities. Apart from the financial assistance which the Reserve Bank has given to these corporations, it has also provided advice on various matters such as selection of personnel and framing of rules of procedure.

84. In addition to the direct contributions of the Reserve Bank in the form of loans for short or long periods to institutions of various types, the Reserve Bank has endeavoured to offer special assistance in case of need. In the early part of 1952, when large quantities of cotton imports had to be financed, the Reserve Bank followed up Government guarantee to buy at listed prices cotton held by banks as security against their advances, by an assurance that reasonable facilities would be made available to the scheduled banks to finance the purchase of Indian and imported cotton. In the provision of finance for the tea gardens, the

Reserve Bank has co-operated with the Government of India in evolving a scheme of guarantee and assistance to banks of various types supplying short-term loans to the tea estates.

85. Besides these *ad hoc* measures, improvements have been effected in remittance facilities provided by the Reserve Bank directly or through its agencies. Remittance facilities now available to financial institutions in the country are described in detail in Appendix IX to this report. Here we should like to refer only to the measures of liberalisation adopted in recent years. With effect from September 1951, the rates of exchange on remittances issued on behalf of commercial banks, co-operative banks and societies and indigenous bankers from the offices of the Reserve Bank, branches of the Imperial Bank, and such treasuries and sub-treasuries as maintain chests of the Issue Department of the Reserve Bank, were reduced from 1/16 per cent to 1/32 per cent for amounts up to Rs. 5,000 and from 1/32 per cent to 1/64 per cent for amounts exceeding Rs. 5,000. In addition, the Scheduled Banks Regulations were amended so as to enlarge the scope of the facilities available to scheduled banks for the transfer of funds through the offices and agencies of the Reserve Bank. In November 1952, the concession rates applicable to remittances issued to approved non-scheduled banks and indigenous bankers in favour of themselves were also made available for remittances issued to these bodies in favour of third parties. While these improvements in the remittance arrangements have to some extent added to the mobility of funds and have reduced the cost of transferring money from place to place, there is still considerable room for improvement in this respect. We have dealt with these matters and made certain recommendations in Chapter VI.

86. We might also mention in this connection the general contribution of the Reserve Bank towards promotion of sound banking practices in the country and towards expansion of banking facilities. A regular system of inspections of banks has been in operation since 1950 and on the basis of the inspection reports, advice is tendered to commercial banks on ways and means of eradicating the defects observed. Most of the parties who appeared before the Committee were of the view that the inspections had benefited the banking system. In regard to banking development, commercial banks desiring to open new branches have to obtain licences from the Reserve Bank in terms of Section 23 of the Banking Companies Act, 1949. While there have been some complaints about the time taken by the Reserve Bank to issue licences, the general view of the witnesses examined by the Committee was that the licensing policy of the Reserve Bank was, if anything, a little too liberal and had, in some cases, resulted in over-concentration of banks. We shall have occasion to refer to this aspect of the matter again in the next chapter.

87. Apart from using its statutory powers to assist the development of sound banking, the Reserve Bank has also sought to influence through suasion and advice, the lending policy of commercial banks. This has been undertaken with a view to ensuring that credit is directed into those lines which have priority in the programme of development. It has also the objective of ensuring that the resources of banks are not utilised for purely speculative purposes, which might endanger the interests of depositors.

88. These are some of the ways in which the Reserve Bank is enlarging its operations and helping to add to the supply of liquid resources, their mobility and their direction into preferred channels. They do not, however, exhaust the range of activities that could be undertaken by the Reserve Bank as the central bank of the country for bringing into existence a credit mechanism that will meet the needs of the expanding economy. It is true that in the accomplishment of this task, the various institutions that make up the credit structure of the country have to co-operate and contribute their utmost. But there are directions in which the Reserve Bank can give a lead and help commercial banks to undertake their new responsibilities with a greater degree of confidence. For instance, while we do not think it advisable for the Reserve Bank to finance directly investment in private industries, we feel that it can facilitate larger investment by commercial banks and other financial institutions in private industry by suitable adjustments in its lending and rediscount practices. Several such adjustments are possible even under the existing provisions of the Reserve Bank of India Act. We have dealt with the specific measures which the Reserve Bank can take in this matter in appropriate contexts in later chapters. Basically, the contribution of the Reserve Bank will be that of creating an atmosphere in which credit institutions can feel that in expanding their *bona fide* activities of financing production and trade, they will have the moral support of the Reserve Bank of India, and, if necessary, financial support to tide over a crisis that is not of their own making.

89. In creating a financial conjuncture in which credit flows easily into the preferred lines, the commercial banks and other financial institutions have a vital part to play. The Planning Commission have emphasised the need for a reorientation in the attitude and functioning of these bodies. "The proper discharge of its functions by the banking system will necessitate its operation more and more in the light of the priorities for development indicated in the Plan and less and less in terms of returns on capital. The banking system—and in fact the whole mechanism of finance including insurance, the stock exchanges and other institutions concerned with investment—will thus have to be fitted increasingly into the scheme of development visualised for the economy as a whole ; for, it is only thus that the process of mobilising savings and of utilising them to the best advantage becomes socially purposive." In our view, there are various adjustments in outlook

and policy which commercial banks and other institutions can make without jeopardising their stability or restricting their field of operations. They have increasingly to operate in a manner which leaves little doubt about their activities being socially purposive. At the same time, we do not see how financial institutions can attract resources unless they can offer adequate returns to those who provide such resources ; and in order to do so, the institutions will themselves have to ensure certain rates of return on their investments and advances. We have already referred in Chapter III to the difficult labour situation in the country affecting the operating costs of banks and other institutions. In addition, the rates at which these institutions can themselves borrow have for various reasons increased substantially in recent years. These factors, together with the subdued state of demand from entrepreneurs at the prevailing rates of interest, have, in fact, narrowed down the return on capital employed by the financial institutions, and it is doubtful if there is any large scope for adjustments in the investment pattern of these agencies. We should like to emphasise that we are not in sympathy with activities that amount to 'profiteering'; but, we do feel that unless banks and other suppliers of credit are able to earn reasonable returns on the capital employed by them, they will find it increasingly difficult to attract the resources necessary to extend their loan and investment operations.

90. As has been already mentioned, the Planning Commission have envisaged an increase of Rs. 158 crores in working capital provided by banks and other agencies for short-term credit. The bulk of this will presumably have to come from organised banks. In order to achieve this target, banks should have larger deposit and loan resources at their disposal ; and the extent to which these resources will have to increase, will depend on the extent to which banks can alter the advances and cash ratios without jeopardising their liquid position. Similar considerations of capacity to invest and marketability or convertibility of investments arise in respect of institutions providing long-term finance. The role which commercial banks can play in meeting the needs of industry and the facilities required for enabling them to do so are indicated in the next chapter ; our views and recommendations pertaining to agencies for provision of long-term finance are set out in Chapters VIII to X.

CHAPTER VI

Commercial Banks and Industrial Finance

91. One of the principal terms of reference to the Committee is to examine the possibility of providing bank finance on a larger scale for development in the private sector. We propose to deal in this chapter in detail with this aspect of our enquiry. Since throughout our report we have restricted ourselves largely to the problems of the private industrial sector, we shall examine in the present chapter the possibility of commercial banks in India making larger finance available for meeting the long-term, medium-term and short-term requirements of industries in this sector.

Traditional Role of Commercial Banks in the Finance of Industry

92. As we have already indicated in Chapter IV, the practice of joint stock banks in India in regard to industrial finance is largely based on the British tradition of commercial banking under which banks as a rule provide only the working capital requirements of industries principally on the security of floating assets and eschew long-term advances against fixed assets. The following table gives an analysis of bank advances as on June 30, 1953, according to their purpose :

(Amounts in crores of rupees)

	Scheduled Banks	Non-scheduled Banks	Total	Percentage to total advances
Industry	188·98	6·52	195·50	33·4
Commerce	262·65	18·08	280·73	47·9
Agriculture	22·99	2·12	25·11	4·3
Personal and Professional	41·00	11·28	52·28	8·9
All others	29·25	2·95	32·20	5·5
Total ..	544·87	40·95	585·82	100·0

It will be seen that of the total advances of banks amounting to Rs. 585·82 crores, about one-third or Rs. 195·50 crores have been lent to

industries. The distribution of these advances over various types of industries is indicated in the following table :

(In crores of rupees)

Type of industry	Scheduled Banks	Non-scheduled Banks	Total
Cotton (ginning, pressing, weaving, etc.) ..	50·76	1·03	51·79
Jute	11·92	0·37	12·29
Other textiles	12·47	0·22	12·69
Iron and Steel	6·04	0·28	6·32
Coal, other mining and quarrying	4·44	0·22	4·66
Engineering	14·58	0·41	14·99
Sugar	32·74	0·43	33·17
Cement	1·74	—	1·74
Public Utilities	3·75	0·67	4·42
Vegetable oil crushing and refining	8·65	0·60	9·25
Chemicals, dyes and paints	8·44	0·11	8·55
Others	33·45	2·18	35·63
Total	188·98	6·52	195·50

It will be observed that the largest proportion of advances has been made to the cotton industry aggregating Rs. 51·79 crores, followed by sugar with Rs. 33·17 crores, and engineering with Rs. 14·99 crores.

93. From the information supplied to us by the Reserve Bank of India, it appears that a few banks in India do make advances to industries against fixed assets but no details are available regarding the total volume of such advances ; in any case, we presume that the aggregate amount of such advances is inconsiderable. We should, however, like to emphasise that a part of the advances of commercial banks to industries for purposes of working capital, though ostensibly short-term, is allowed to be renewed from time to time. It is a matter of common experience that although these advances which are largely in the form of cash credits are given for the purpose of requirements of working capital, a part of these facilities operates to release the borrowers' funds for long-term expenditure. Though this part of the finance revolves or rolls over, in actual effect it does serve the needs of providing finance for long periods to a certain extent. Apart from such finance, the commercial banks in India also indirectly partake in long-term industrial

finance through (*a*) purchases of shares and debentures of industrial concerns, (*b*) making advances against such shares and debentures, and (*c*) investments in the shares and bonds of the Industrial Finance Corporation of India and State Financial Corporations. According to the latest available figures, as on June 30, 1953, the investments of scheduled and non-scheduled banks in shares and debentures of joint stock companies amounted to Rs. 12·23 crores, and their advances against such security to Rs. 43·34 crores, while the investments of scheduled banks in the shares and bonds of the Industrial Finance Corporation of India aggregated Rs. 2·71 crores. On the whole, it would appear that the share of commercial banks in long-term industrial financing in India is relatively small. This, no doubt, is due both to the nature of their liabilities, which are preponderantly repayable on demand, and the risks inherent in long-term advances to or investments in industry.

Mixed Banking

94. There is an important section of opinion in India which holds that, in view of the absence of a capital market in the country in the real sense of the term, commercial banks should take an active part in the medium-term and long-term financing of industry, both by providing equity capital and long-term loan capital. In other words, what is advocated is a mixed banking system which was widely prevalent in several countries before the world economic depression of 1929-33 and still continues in a number of them. The essence of this system is the provision, by the commercial banks, of short-term, medium-term and long-term capital to industries. However, actual experience gained during 1931-33 of banking crises throughout the Continent and in the United States has resulted in legislative prohibitions and restrictions in a large number of countries against combining deposit with investment banking.

Trend of Evidence

95. The trend of evidence submitted to the Committee on the subject of the participation by banks in long-term finance has been of a mixed character. While representatives of industries, in general, have asked that banks should make greater finance available to meet the long-term requirements of industry, the bankers have, as a rule, been more circumspect and emphasised that their primary function is to restrict themselves to short-term financing ; some representatives of banks, however, have expressed their readiness to provide long-term finance against fixed assets, provided such advances can be made eligible for borrowing from the Reserve Bank of India. There has also been a demand that the Reserve Bank of India should make medium-term advances to scheduled banks against the security of fixed assets mortgaged to the latter. To illustrate, the Federation of Indian Chambers of Commerce and Industry, in their memorandum presented to the Committee, state as follows :

"The first business of commercial banks is to maintain a liquid position so as to meet all liabilities on time, and this can be ensured

only if it would be possible for the scheduled banks to borrow from the Reserve Bank of India against their medium-term or long-term advances.........The Reserve Bank has agreed to grant financial facilities to co-operative banks to the extent of Rs. 5 crores against intermediate finance ranging from 3 to 5 years of the co-operative banks. A procedure along similar lines should be adopted so as to enable the scheduled banks to meet the intermediate-term requirements of industry. The Reserve Bank should also consider the possibilities of lending to the banks against shares and debentures and fixed assets of industries which are pledged with them as security for loans."

A somewhat similar view has been expressed by the Indian Banks Association who have observed in their memorandum as follows :

"......The Reserve Bank should lend readily against documents created in connection with medium-term and long-term advances made by banks to industrial concerns against the latters' fixed assets. The Reserve Bank of India (Amendment) Act, 1953 has empowered the Reserve Bank to grant financial facilities to co-operative banks to the extent of Rs. 5 crores against the "intermediate-term finance" ranging from 3 to 5 years of the co-operative banks.

The Reserve Bank should lend readily against the investments of banks in debentures of industrial concerns......".

On the other hand, some of the leading banks in India have expressed themselves strongly against any form of direct participation in long-term advances to industries. Viewing the evidence as a whole, there does not appear to be any consensus of opinion among bankers, industrialists and others who met the Committee regarding the role which commercial banks could appropriately play in the medium-term and long-term finance of industry.

Experience of Long-term Industrial Advances of Indian Banks

96. At this stage, we may refer briefly to the experience of banks in India in the past in regard to long-term industrial advances against fixed assets. Although banks in India have generally confined themselves to the provision of working capital, there have been at least three distinct periods in the recent banking history of the country when they seem to have made available appreciable amounts of long-term finance to Indian industries. The first period was during the Swadeshi Movement of 1906-13 when a number of banks, especially in Punjab, participated to a considerable extent in long-term industrial advances. After the First World War again, certain industrial banks were floated for the specific purpose of promoting and making long-term advances to industries. More recently, during the period of World

War II, the failure of a large number of banks in West Bengal has been attributed amongst other reasons to their long-term advances to industrial concerns.

Committee's View regarding Participation by Banks in Long-term Industrial Finance

97. The Committee has given very considerable thought to the question of making increased finance available to the private industrial sector through commercial banks and, in particular, explored the possibility of banks supplying long-term capital to industries. In general, banks appear to be of the opinion that, with their present resources, they cannot make advances to industries on a long-term basis. It has been suggested that commercial banks would be prepared to undertake, to a certain extent, long-term finance of industries provided, in case of need, they can obtain loans from the Reserve Bank against such advances. The Committee has examined the issue and is of the opinion that, in the general interest of the credit structure of the country, it does not appear to be desirable to encourage a tendency on the part of banks to lean on the Reserve Bank for providing liquidity against these advances which they make on their own judgement and initiative. The Committee is definitely of the opinion that commercial banking practice has proved sufficiently helpful in providing finance to industries within the limits of the resources available today to banks in India. This practice, however, does not preclude—and has not precluded—advances of a medium or long-term character provided individual banks are satisfied in their own judgement that such advances are for moderate amounts in consonance with ordinary banking prudence and are also consistent with maintenance of liquidity.

98. As observed in Chapter IV, scheduled banks have been participating in the provision of long-term finance to industries through their investments in industrial securities and through lending on such securities. The Committee recommends that even with the present resources available to banks they should endeavour in an *indirect* manner to make increased finance available to the private industrial sector by (*a*) adding to their investments in the shares and debentures of first class industrial concerns where they are satisfied regarding their transferability and marketability, (*b*) making larger advances to approved parties against such shares and debentures and (*c*) subscribing to a greater extent to the shares and bonds of the Industrial Finance Corporation of India and the State Financial Corporations. It is felt that the liquidity position of banks will not be materially prejudiced if banks indirectly assisted long-term financing of industries by subscribing to the securities of such special Corporations. Some of the measures necessary to secure greater indirect participation by banks in the finance of industries on the lines indicated are discussed below.

99. The Committee feels that the indirect participation by banks in long-term industrial finance would be considerably facilitated if the leading banks in India, in co-operation with insurance companies, could form a consortium or syndicate for underwriting or investing in new issues of shares and debentures of industrial companies wherever they are satisfied about the soundness and prospects of the projects. If banks in India would invest, say, an amount equal to 5 per cent of their deposits in such shares and debentures, they could make available a further sum of over Rs. 30 crores for the long-term finance of industries in the private sector without seriously jeopardising their liquid position. Such a consortium could appropriately function under the leadership of the largest joint stock bank in the country, namely, the Imperial Bank of India. Under the Imperial Bank of India Act as it stands at present, however, that bank is prohibited from investing in the shares and debentures of joint stock companies, though it is authorised to accept fully paid-up shares as collateral security for advances, and is also empowered to make advances against the debentures of companies with limited liability. It is presumed that the present statutory restrictions are a relic of the times when the Imperial Bank functioned as a banker to the Government of India. We recommend that, in the present day conditions, such restrictions are out of date and that Part I of Schedule I to the Imperial Bank of India Act may be suitably amended to enable the bank to participate actively in providing long-term finance for industries through such investments.

Indirect Participation by Banks in Long-term Finance

100. In paragraph 98 above, we have recommended that banks in India should invest larger amounts in the shares and bonds of the Industrial Finance Corporation of India, the various State Financial Corporations and Corporations of a similar character and thus enlarge the scope of their indirect participation in long-term industrial credit. It has been pointed out to the Committee that the above shares and bonds, as also the loans of State Transport Agencies, which are guaranteed by the Central or the respective State Governments, are not in practice accepted by the Reserve Bank as security for advances granted under Section 17(4)(*a*) of the Reserve Bank of India Act, though the Act enables the Reserve Bank to lend against all trustee securities. For instance, it has been reported that the Reserve Bank accepts the shares of the Financial Corporations as security for advances to scheduled banks only when they have no Government securities to offer as cover. The Committee feels that this practice inhibits investment in such shares and bonds by commercial banks and thereby tends to restrict finance available to the private sector. The Committee, therefore, recommends that the Reserve Bank should treat these trustee securities carrying a guarantee by the Central or State Governments as on a par with Government securities for advances under Section 17(4)(*a*) of the Reserve Bank of India Act, on

Advances against Shares and Bonds of Financial Corporations

such terms regarding margins, etc., as the Reserve Bank deems appropriate. The Committee, however, recognises that circumstances may arise in future in which the Reserve Bank may, in the interests of general credit policy, find it desirable to restrict its advances on such securities. In such circumstances, it should be open to the Reserve Bank to exercise its judgement in regard to the trustee securities which shall be acceptable to it as security for loans.

The Committee also feels that the statutory restrictions placed on the amount of shares that could be held by different classes of investors are not calculated to ensure the marketability of these shares. The Committee is of the opinion that in order to encourage banks to subscribe to or hold larger amounts of the shares of these Corporations, it is very essential that the liquidity of these investments should be facilitated by removing such restrictions.

Banks and Short-term Finance

101. Having dealt with the role which commercial banks in India should, in our opinion, appropriately play in the provision of long-term finance, we shall proceed to examine in detail the possibility of banks making greater short-term finance available to industries in the private sector. As we have already indicated, the Plan envisages an expansion of Rs. 158 crores in the short-term requirements of industries during the period 1951-52 to 1955-56, which principally the scheduled banks are expected to provide. The following table shows the trend in the industrial advances of scheduled banks in recent years :

(Amounts in crores of rupees)

Date	Advances of scheduled banks to industries	Percentage to total advances	Deposits of scheduled banks*	Percentage of (2) to (4)
(1)	(2)	(3)	(4)	(5)
31-12-1951	194·3	33·5	828·8	23·4
31-3-1952	233·0	36·9	810·1	28·8
30-6-1952	211·1	37·4	836·9	25·2
30-9-1952 ..	183·4	35·1	837·4	21·9
31-12-1952	178·8	35·1	823·5	21·7
31-3-1953	204·1	35·4	822·4	24·8
30-6-1953	189·0	34·7	835·6	22·6

* As per returns submitted by banks in form XIII under the Banking Companies Act, 1949.

Barring seasonal tendencies, it will be seen that the figures show hardly any significant change either in their advances or in their deposits during the last two years. If the banks are to fulfil the target indicated in the Plan, we consider it an essential pre-requisite that there should be a substantial expansion in their resources. It is unfortunate that at a time when the private sector is in need of greater financial assistance the resources of banks should have remained more or less stagnant. During our discussions with banking and industrial interests, a number of impediments in the way of banking expansion were mentioned to us and suggestions were made for enlarging the resources of banks and thus their ability to make larger advances to the private sector. Among these impediments may be stated (*i*) the relative backwardness of the banking habit in the country, (*ii*) the inability of banks to expand branches owing to the steep rise in their establishment charges as a result of the Awards of Labour Tribunals, (*iii*) increasing competition from the public sector for available resources, (*iv*) certain directives of Government departments in regard to keeping of moneys of Government and quasi-Government institutions with banks, (*v*) insistence by Government on deposit of Government securities in respect of guarantees furnished by banks, (*vi*) inquisitorial inquiries regarding the customers' accounts with banks by the Income-tax and Sales tax departments of Governments, and (*vii*) advice tendered by the Reserve Bank to certain banks regarding banking practices. With regard to the positive steps suggested to enable banks to expand their resources and make more finance available to the private sector may be mentioned (*i*) liberalisation of the Bill Market Scheme of the Reserve Bank of India, (*ii*) liberalisation of existing remittance facilities, (*iii*) subsidies to banks to open branches in rural areas, (*iv*) deposit insurance, (*v*) legislation to make drawing of fraudulent cheques a criminal offence, (*vi*) adequate security arrangements for banks in mofussil areas, (*vii*) mobile banks, and (*viii*) special measures to be taken by Banking Associations in India to popularise the banking habit, avoid undue competition and promote co-operation amongst banks in matters of common interest. These suggestions are dealt with below in some detail.

Banking Habit

102. As indicated above, the banking habit is still comparatively undeveloped in India. Although, owing to the low level of per capita income in India, it is difficult to interpret comparative figures, it will be seen from the figures given in Appendix X that the average deposit per head in India is only Rs. 25 as compared to Rs. 1,636 in the United Kingdom and Rs. 4,493 in the United States. Further, the ratio of bank deposits to currency in circulation in our country is 0·76 as against 4·25 in the U. K., 5·17 in the U.S.A. and 3·63 in Japan (*vide* Appendix XI). While the Committee recognises that the development of the banking habit is a complex process, it recommends, with all the emphasis at its command, that everything possible should be done to remove the various impediments that are at present hindering the progress of banking.

103. It has been represented to the Committee that one of the factors which has seriously retarded the growth of banking in recent years, particularly in the semi-urban areas, is the steep rise in the operating costs of banks as a result of the Awards given by various Industrial Tribunals. Our attention has also been drawn to the possibility that, if the present trends continue, the stability of the Indian banking system itself might be endangered in the near future.

Awards of Industrial Tribunals (Bank Disputes)

104. Appendix XII, compiled from the "Statistical Tables relating to Banks in India" for the year 1952 published by the Reserve Bank of India, indicates the recent trends in the earnings and expenses of Indian scheduled banks. It will be seen that the net profits of Indian scheduled banks have declined from Rs. 8·07 crores in 1948 to Rs. 7·51 crores in 1951 and further to Rs. 7·44 crores in 1952*. In this connection, it may be emphasised that the figures of the net profits for the years 1951 and 1952 do not take into account the full effects of the decline in the prices of Government securities on the portfolios of banks as a result of the recent rise in interest rates. By *ad hoc* notifications in terms of the Banking Companies Act (Government of India, Ministry of Finance, Notifications Nos. 7 (167)-FI/51 and F. 4(175)FI/52 dated the 24th December 1951 and the 23rd December 1952 respectively), banks have been permitted to show, in their balance sheets, their investments in Government securities at rates in excess of the market prices. The profits for these years would have been substantially affected if full provision had been made for depreciation in their investments in Government securities.

105. The figures given in the above Appendix also bring into bold relief the continuous rise in the establishment charges of Indian scheduled banks during recent years in spite of a fall in their deposits and in the number of their offices. Thus, between 1948 and 1952, while the deposits of these banks fell from Rs. 875·20 crores to Rs. 715·37 crores and the number of their offices from 3,115 to 2,674, their establishment expenses increased from Rs. 9·50 crores to Rs. 12·84 crores. The ratio of establishment expenses to deposits rose from 1·09 per cent in 1948 to 1·80 per cent in 1952 or by 65 per cent, while the establishment costs per office went up approximately from Rs. 30,000 to Rs. 48,000 or by 60 per cent. It is also significant to note that, during this period, the ratio of establishment expenses to gross profits increased from 44·32 per cent to 50·86 per cent. The rise in establishment

* Net profits of nine leading Indian scheduled banks during the period 1950-53 were as follows:

(in crores of rupees)

Year	1950	1951	1952	1953
Net profits	4·20	4·64	4·34	4·06

charges has been particularly steep during the years 1950, 1951 and 1952 reflecting, in part, the effect of the application of the scales of salaries and increments for bank workmen as prescribed in the Sen Award. It may be mentioned in this context that the establishment charges would have been even higher if provision had been made for the payment of gratuities as laid down in this Award. As the Sastry Award is now under appeal, the Committee does not wish to make any observations thereon.

106. Some bankers who have endeavoured to assess the burden of the Sen or the Sastry Award and tried to project it for the next few years apprehend that, if full effect were given to either of these Awards, the result would be an approximate rise of 10 per cent in the wage bill every year. Under existing conditions, when the resources of the banks are falling and the rates they have to pay on deposits rising, the banks would find it increasingly difficult to meet this growing burden of establishment charges after a few years. It is felt that unless effective steps are taken to rationalise the entire cost structure of banks, the stability of the banking system as a whole might be seriously jeopardised.

107. The Awards of the Industrial Tribunals in the case of banks have had equally unfortunate results in certain other directions. In the first place, they have led to a weakening of the sense of discipline and loyalty among the rank and file of the staff, thereby reducing the out-turn of work, increasing inefficiency, mistakes and frauds and further lowering the standard of service rendered to the public. Secondly, they have resulted in a curtailment of banking hours and, as a corollary, in facilities for the clearance of cheques, causing considerable inconvenience to the business community. Lastly, the application of the Awards to rural areas, contrary to the recommendation of the Rural Banking Enquiry Committee, has seriously retarded the development of banking facilities in the country.

108. The Committee has given considerable thought to the question of the rise in operating costs of banks in India and feels that the situation is sufficiently serious to warrant urgent measures being taken to facilitate proper functioning and development of banks in India. The Committee is, therefore, of the opinion that the Government of India should immediately appoint an Expert Committee to examine, among other things, ways and means of rationalising the wage and salary structure in the banking sector and to explore possible avenues of reducing the burden of operating costs to banks. It is felt that one possible approach to providing relief may be to explore the practicability of fixing ceilings for the ratio of establishment charges to working funds or deposits of banks, taking into account the urgent need for banking development in the country. In this connection, we may mention that, while in the United States the ratio of establishment expenses to deposits of member banks has risen from 0·75 per cent

in 1949 to 0·84 per cent in 1952, it has increased in India from 1·36 per cent to as much as 1·80 per cent during the same period (*vide* Appendix XIII).

Competition from the Public Sector

109. It has been suggested that one of the reasons for the decline or stagnation in bank deposits is the keen competition for the limited resources available in the money market from the Central and State Governments as also from various Government agencies such as Post Office Savings Banks. During recent years, deposits in Post Office Savings Banks have shown a steep rise* and it has been suggested that one of the reasons for this trend is the fact that interest on such deposits is free of income-tax. While the Committee recognises that, in a mixed economy, a certain amount of competition is inevitable between Government and private agencies seeking finance for investment, they wish to emphasise that the private sector, which has been assigned an important role in the implementation of the Plan, should not be starved for want of finance.

Restrictions on Banks in regard to Receipt of Deposits from Local Bodies, etc.

110. The Committee understands that the Government of India have issued instructions to the effect that no funds of local bodies or quasi-Government institutions should be deposited with commercial banks (excepting those that are agents of the Reserve Bank) unless such banks deposit an equivalent amount of Government securities as cover. Similarly, when guarantees and indemnities are given by banks on behalf of customers to various Government departments, the banks have to lodge an equivalent amount of Government securities with the Reserve Bank. Presumably, these restrictions were imposed as a result of some losses sustained by Government departments due to the failure of some banks. The Committee feels that the remedy lies in the Central and State Governments preparing, in consultation with the Reserve Bank of India, an approved list of banks which may be authorised to receive deposits of local bodies or quasi-Government bodies and furnish guarantees and indemnities to Government departments on behalf of customers up to specified limits. We are aware that the preparation of such a list might evoke some criticism; but the Reserve Bank, as the central banking authority, must be accepted as the final arbiter in the matter.

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* Figures of the Post Office Savings Banks Deposits since 1948 are as follows :

(In crores of rupees)

Year	1948	1949	1950	1951	1952
Amount	128·11	148·49	167·19	185·06	199·81

111. It has been suggested to the Committee that one of the reasons for the downward tendency in bank deposits is the inquisitorial investigations of the Income-tax and Sales tax departments of Governments which are adversely affecting the confidence of the public in the secrecy of banker-customer relationship. The public seem to feel that banks are being compelled to act as agents of Income-tax and Sales tax authorities and this feeling drives some of them away from the banks and encourages hoarding in the form of currency notes and bullion. In respect of sales tax, in particular, representations were made to the Committee that banks were being asked by some State Governments to furnish them with detailed information relating to inter-State transactions and apprehensions were expressed that this might result in increasing the number of traders transacting business outside the banking system and thus discouraging the banking habit. The Committee has considered the issue and while it strongly deprecates anti-social tendencies such as evasion of taxes, it wishes to draw the attention of the Central and State Governments to the necessity of doing everything possible to maintain the secrecy of banker-customer relationship and of developing and fostering the banking habit. In the opinion of the Committee, the types of inquisitorial inquiries that are being made at present from banks, if persisted in, could only retard the development of banking, as quite apart from the question of taxation, the general public in India are highly sensitive in regard to the secrecy of their financial transactions, including transactions with banks.

Inquiries from Income-Tax and Sales Tax Departments

112. Another matter connected with Government departments which was represented to us by banking and industrial interests is the inordinate delay in the payment of bills in respect of goods supplied to Government. It is stated that this delay is a severe handicap, particularly in the case of small-scale and medium-scale industries, as it results in locking up or immobilising an appreciable proportion of their resources. It also discourages the grant of working capital by banks to the small industries, since banks are reluctant to make advances against such bills. Further, it has been suggested to us that the delay affects Government also adversely, as the price tendered by the suppliers, in view of their past experience, is higher than the normal. The Committee, therefore, strongly recommends that the Central and State Governments should issue directives to the departments concerned for the prompt settlement of bills. The question was taken up by us with some of the State Governments whom we met and we are gratified to find that one of them has issued immediate instructions on the subject. But much more still remains to be done. We feel that, if a system of letters of credit against accepted orders is instituted by Government departments, the suppliers would be in a position to obtain prompt payment. In order to safeguard the interests

Delay in Payment of Government Bills

of Government, appropriate conditions will have to be specified in respect of drawings under such letters of credit, and one of the conditions should be that the supplier should furnish an inspection note signed by a duly authorised officer of Government.

Directives issued by the Reserve Bank of India

113. It has been represented by a section of bankers that one of the factors, which hinders the development of banking as also the flow of finance to the private sector, is the various directives issued by the Reserve Bank of India to banks by virtue of the powers conferred upon it under the Banking Companies Act. For instance, it is stated that the Reserve Bank advises banks that the ratio of their advances to deposits should not exceed a specified percentage and that the Bank also gives various instructions after inspection or otherwise. It is further stated that the Reserve Bank is trying to apply to the smaller banks, whose deposits consist principally of time liabilities, the criteria which would be appropriate to the bigger banks. The consensus of opinion among bankers seems to be that the various restrictions imposed under the Banking Companies Act and the directives issued by the Reserve Bank thereunder are in the interests of sound banking and have not retarded banking development. We, however, suggest for the consideration of the Bank whether any of the criteria could be suitably modified, without prejudice to sound banking principles, in view of the special characteristics of the smaller banks, such as their deposit structure and other local conditions.

Liberalisation of the Bill Market Scheme of the Reserve Bank of India

114. Having dealt with some of the obstacles which are impeding the development of banking resources in India, we shall now proceed to consider the positive steps which should be taken to increase the resources of banks and to enable them to expand their advances to the private sector. One of the important suggestions received to this end is that the existing facilities to banks under the Bill Market Scheme formulated by the Reserve Bank of India should be further liberalised and extended. We have already referred to the borrowings under this scheme in Chapter V. At present facilities under the scheme are restricted to banks having deposits of Rs. 10 crores or over or to licensed banks with deposits of Rs. 5 crores or over. The individual bills to be rediscounted are required to be of the minimum amount of Rs. 1 lakh, in parcels of a minimum of Rs. 25 lakhs. The Committee has considered the question of the extension of the present scheme and strongly recommends that facilities under the scheme should be available to all scheduled banks with deposits of Rs. 1 crore or over. Further, the individual minimum amount for bills should be reduced from Rs. 1 lakh to Rs. 50,000 and for parcels of bills from Rs. 25 lakhs to Rs. 10 lakhs. In order to facilitate the working of the scheme, limits for the various banks should be fixed by the Reserve Bank in advance of the busy season and, for this purpose, the banks wishing to avail

themselves of the scheme should apply to the Rerserve Bank for limits in anticipation of the business they expect to handle in the season.

115. It is stated that one of the factors which is hindering the extension of the Bill Market Scheme is that some borrowers from banks do not like their bills to be rediscounted with the Reserve Bank. We see no justification for such an attitude, and believe that this initial psychological reaction will soon be got over once the borrowers understand the scheme in its proper perspective.

116. A section of bankers has represented to us that the information asked for on parties by the Reserve Bank is unnecessarily inquisitorial and that this causes delay in obtaining accommodation from the Bank. The Committee has examined, in this connection, the form in which information on parties is to be supplied to the Reserve Bank and finds no justification for the allegation that it is unnecessarily detailed ; on the other hand, in the opinion of the Committee, the form asks for only such information as is commonly required by banks from their customers.

117. Further, it has been represented to the Committee by some banks that the Reserve Bank lays too much emphasis on the credit-worthiness of the drawers of bills instead of relying principally on the credit of the endorsing bank. The Committee has gone into this question in detail and has also examined in this context the relevant provisions of Section 17 of the Reserve Bank of India Act. Since these provisions stipulate that the bills to be rediscounted by the Reserve Bank should arise out of *bona fide* commercial or trade transactions and should bear two or more *good* signatures, one of which shall be that of a scheduled bank, the Committee feels that the Reserve Bank is justified in making the necessary enquiries to satisfy itself regarding the credit-worthiness of the drawers of bills.

118. The Committee is of the opinion that the timing of the Central and State Governments' loan issues should normally be so arranged that the money markets are not subjected to an additional strain when banks are expected to meet all the requirements of trade and industry during the busy season.

119. The Committee is satisfied that the Bill Market Scheme has by and large succeeded in fulfilling the purpose for which it was started and assumes that it has come to stay as a permanent feature of the money market. The Committee further feels that on this analogy it may be possible to explore ways and means of increasing the resources of banks for the provision of medium-term finance by the Reserve Bank through similar facilities under proper safeguards. The Reserve Bank may, therefore, examine such possibilities, including if necessary, suitable amendments to the Reserve Bank of India Act.

120. Almost all the bankers who met the Committee emphasised that, if the velocity of circulation of money in India could be quickened, they would have much larger scope for extending credit to the private sector. According to these bankers, inadequate remittance facilities compelled them to keep much larger cash and bank balances at most of their branches than was really necessary. The bankers also represented that the lack of adequate remittance facilities necessitated their locking up a substantial portion of their investments in Government securities as cover for overdraft arrangements at the Imperial Bank to meet sudden demands for payment. They urged that they could effect considerable economy in cash, bank balances and Government securities if remittance facilities could be enlarged, cheapened and quickened. The following table shows the percentage of "cash in hand" and "balances with banks" to deposits of several classes of banks in India :

Remittance Facilities

	1946	1947	1948	1949	1950	1951	1952
1. Imperial Bank of India ..	15·63	14·97	15·58	26·71	12·18	12·81	12·36
2. Other Indian scheduled banks	19·05	19·60	19·39	18·17	17·44	16·57	16·37
3. Foreign scheduled banks (mostly Exchange Banks)	13·11	17·95	10·64	11·69	10·98	14·62	9·30
4. Total scheduled banks ..	17·17	18·10	16·96	19·31	14·92	15·26	14·05
5. Total non-scheduled banks	26·36	20·70	17·56	16·64	15·69	16·09	15·84
6. Total of scheduled and non-scheduled banks ..	17·99	18·29	17·00	19·12	14·96	15·32	14·17

121. The figures given above reveal that, with the exception of the Imperial Bank of India, the Indian joint stock banks, both scheduled and non-scheduled, maintain a fairly high percentage of cash and bank balances to deposits, which has been over 15 per cent for the years 1946 to 1952, being at times as high as 19·60 per cent in 1947 in the case of the scheduled banks and 26·36 per cent in 1946 in the case of the non-scheduled banks. In the case of foreign scheduled banks, the percentage has varied between 17·95 in 1947 and 9·30 in 1952. With the exception of the year 1949, the percentage in the case of the Imperial Bank has been lower than that of other Indian scheduled banks. Even if we take into account only "cash in hand" and "balances with the Reserve Bank of India" of the Indian scheduled banks, the ratio of these two items to deposits was 11 per cent in 1951 and 10 per cent in 1952. The corresponding ratio of "cash in hand" and "balances with the Bank of England" to deposits in the case of the British clearing banks is around 8 per cent.

122. It has been represented to the Committee that banks in India could work with a lower ratio of cash to deposits than they are maintaining at present, if they could quickly and cheaply transfer money from their branches to their respective head offices and *vice versa*, which means that they could release an amount, say, approximately equal to 2 to 3 per cent of their deposits for the purpose of lending to the private sector. In the face of the published figures the Committee is of the opinion that the capacity of banks in India to lend can be appreciably enlarged if remittance facilities can be improved radically. In this connection we should like to draw attention to Appendix IX (A) which describes briefly the remittance facilities obtaining in the U.S.A.

123. Another important factor to be taken into account in this connection is that at present a number of banks in India, particularly those which have a large number of branches, are investing a fairly high proportion of their deposits in Government securities. One of the reasons for this is that banks have to earmark securities for overdraft facilities to their branches from the Imperial Bank of India in times of need. If methods for transferring money to the branches from the head offices and *vice versa* can be improved, it is felt that banks can reduce their investments in Government securities and utilise the amount thus freed for extending credit to the private sector of industry. According to Section 24 of the Banking Companies Act, banks are required to maintain not less than 20 per cent of their demand and time liabilities in the form of cash, gold or unencumbered approved securities. In actual practice, the ratio of cash, balances with banks and investments in Government securities of Indian scheduled banks to deposits has varied between 49 per cent and 62 per cent during the years 1949 to 1952. It has been suggested that lack of adequate remittance facilities is one of the factors which compel banks to hold larger amounts of cash and Government securities than are prescribed under the law.

124. At present, remittance facilities in India, through the Reserve Bank, are governed by the Remittance Facilities Scheme which has been formulated by the Bank with a view to facilitating the transfer of funds between different centres in the country so as to secure the most economical use of the available financial resources (*vide* Appendix IX). This scheme is operative between places where the Reserve Bank has its offices or branches or has established currency chests of its Issue Department. Such currency chests have been established at "agencies" i.e., at specified offices or branches of agent banks (*viz.*, the Imperial Bank of India, the Hyderabad State Bank and the Bank of Mysore Ltd.) and at "treasury agencies", i.e., at treasuries and sub-treasuries under the control of the Central or the State Governments. The following facilities, in brief, are at present available to scheduled banks under the above scheme.

125. A scheduled bank is entitled to transfer :

(*i*) An amount of Rs. 10,000 (minimum) or in multiples of Rs. 1,000 in excess thereof between its accounts at the offices of the Reserve Bank free of charge ;

(*ii*) once a week, an amount of Rs. 5,000 or a multiple thereof from any place at which there is an agency of the Reserve Bank to any account which the scheduled bank maintains with the Reserve Bank, such remittance being permitted to each of its offices, branches, sub-offices and pay offices, free of charge ;

(*iii*) other remittances to an account which it maintains with the Reserve Bank, from any place at which there is an agency of the Reserve Bank, at 1/64 per cent; and

(*iv*) other remittances through agencies or treasury agencies subject to a charge of 1/32 per cent for amounts up to Rs. 5,000 and 1/64 per cent for amounts of Rs. 5,000 or above.

Even with regard to the limited facilities available at present, the bankers have pointed out a number of difficulties experienced by them. It is stated that branches of banks are unable to remit money whenever they want to do so because of (*i*) the high rates for remittances and loss of interest due to delays in telegraphic communications, (*ii*) insufficiency of shroffing staff at agencies of the Reserve Bank for counting lower denomination notes and coin, and (*iii*) insufficiency of vault space for storage of such notes and coin at agencies of the Reserve Bank.

126. The Committee considers that it is of the utmost importance that the existing remittance facilities should further be liberalised and accordingly recommends as follows :

(*i*) The Reserve Bank of India should explore the question of instituting, at an early date, a teleprinter service between its offices and the extension of this service to agencies, where practicable.

(*ii*) The Reserve Bank should take up with the Ministry of Communications the question of instituting a special class of telegram, of a priority higher than that of "Express" telegram but lower than that of the "Important" telegram, for bank remittances between the Reserve Bank and its agencies.

(*iii*) The Remittance Facilities Scheme of the Reserve Bank should be enlarged so as to provide free remittance facilities to banks from their head offices to their branches and *vice versa*, every working day. The Committee, however, recognises the immediate practical difficulties of attaining this target and therefore recommends that this facility should, to start with, be provided at least twice a week from the agencies of the Reserve Bank, and, as soon as possible, from the treasury agencies.

(*iv*) The Reserve Bank of India should formulate a scheme under which the Bank's offices and agencies should purchase telegraphic transfers

from branches of banks on their head offices up to suitable limits fixed for each branch of a bank at a cost not exceeding 1/64 per cent. The banks may be asked to deposit securities up to 5 per cent of their deposits by way of general cover. If in any particular case, depending upon actual experience of buying telegraphic transfers, this cover is not found sufficient, the Reserve Bank may ask for larger cover. As the actual limits sanctioned as also the drawings may exceed the loanable value of the securities, the Reserve Bank should consider whether it is necessary to amend its Act for the purpose.

(*v*) A Committee consisting of three representatives of the banks and one representative each of the Reserve Bank and the Imperial Bank should be formed to deal with the practical difficulties experienced by banks in regard to the Remittance Facilities Scheme and help resolve them.

127. The Committee is fully conscious that the liberalisation of remittance facilities recommended will involve additional cost. On the other hand, the Committee is fully satisfied that in the interests of banking development, this cost would be worth incurring. Mere consideration of cost should not deter the authorities from making progress along these lines. The Committee, in making these recommendations, would impress upon the banks for whom these additional facilities are recommended that they should co-operate fully with the authorities and make judicious use of these facilities so that the strain on the authorities is reduced o a minimum.

Statutory Deposits with the Reserve Bank

128. In order to increase the capacity of the scheduled banks to make more funds available to the private sector, it is proposed by some that a part of their statutory deposits with the Reserve Bank, which is at present being maintained in cash, should be allowed to be kept in the form of Government securities. On the basis of their present demand and time liabilities, the minimum statutory deposits of the scheduled banks amount to about Rs. 30 crores and, if, say, 50 per cent of this is permitted to be held in Government securities, it is argued that an appreciable amount could be released for advances to the private sector. We believe that this suggestion is based on a misconception regarding the fundamental purpose underlying the maintenance of minimum deposits with the central bank. The primary object of these deposits is to enable the central bank to control the total volume of bank credit. The Committee is, therefore, unable to accept the suggestion.

129. The Committee would like to draw the attention of the authorities of the Reserve Bank to Section 17(13) of the Reserve Bank of India Act. As the Committee understands this Section, the Reserve Bank is authorised, if it so desires, to open an account with a bank incorporated in any country outside India. Under the Section, therefore, the Reserve Bank has no powers to open an account with an Indian bank

operating in a territory outside India. In view of the recent developments when Indian banks are taking an increasing interest in developing foreign business through their branches abroad, the Committee is of the opinion that the Act should be amended to authorise the Reserve Bank to open accounts with Indian banks operating outside India.

Subsidies to Banks to open Branches in Semi-urban Areas

130. To revert to the problem of increasing banking resources, an important measure suggested for this purpose is that banks should open branches in areas hitherto untapped by them. Out of a total of 3,018 towns in India according to the 1951 census, 1,463 or about one-half do not have an office or a branch of a bank. During the last few years, moreover, bank offices have shown a declining trend, the total number of offices of scheduled and non-scheduled banks in India having fallen from 4,819 at the end of 1947 to 3,967 at the close of 1952. During our discussions with bankers, it was pointed out that, although they expect some increase in deposits by opening branches in untapped areas, they are apprehensive that such branches might prove to be uneconomic propositions for years to come owing to the burdens placed on banks by the Awards of Industrial Tribunals. As a matter of fact, some of the representatives of banks who met the Committee stated that they had hardly opened any new branch since 1950.

131. In order that the banking system may be able to attract the current savings of the population to the largest extent possible and place them at the disposal of trade and industry in the private sector, the Committee considers it essential that there should be planned expansion of branches of commercial banks in all urban and semi-urban areas. At present, with the exception of the Imperial Bank of India, which has formulated a programme of expansion, in consultation with the Reserve Bank of India, in pursuance of the recommendations of the Rural Banking Enquiry Committee (1950), none of the other banks appears to have any comprehensive scheme for the expansion of branches in semi-urban areas. In order to enable the Imperial Bank to meet a portion of the overheads at its new branches, it is being paid a turnover commission at such branches for Government work at an enhanced rate of 1/16 per cent. In view of the need for stimulating branch expansion in undeveloped areas, the Committee has considered carefully whether any inducement should be offered to other commercial banks also by way of subsidies or commission on deposits in respect of branches in such areas. The Committee recommends that the Reserve Bank of India should, in consultation with the Government of India, work out a detailed scheme of financial assistance to licensed scheduled banks opening branches in accordance with an expansion programme submitted by banks and approved by the Reserve Bank. The assistance, for instance, may take the form of a lump-sum grant to cover a part of the initial expenses of the branch and a commission in respect of deposits collected over a prescribed

minimum. Since permission of the Reserve Bank of India is necessary in terms of Section 23 of the Banking Companies Act for opening a branch, the Reserve Bank may also consider the desirability of not allowing more than one banking office to be opened in an undeveloped area for a limited period, say, up to five years. A number of banks have complained to the Committee that the Reserve Bank's policy in giving permission to open branches is too liberal and leads to uneconomic competition ; while the Committee sees no justification for the complaint since banks are expected to make detailed investigations regarding business possibilities before applying for permission to open branches, it feels that in respect of places not served by a banking office, the Reserve Bank may use its licensing powers to prevent excessive competition. This consideration, however, should not apply in the case of the Imperial Bank of India which has to open branches to facilitate the carrying on of Government treasury work.

Adequate Security Arrangements for Banks in Mofussil Areas

132. It has been represented to the Committee that one of the difficulties in the way of banks desiring to open branches in mofussil areas is the lack of adequate security arrangements. Owing to the dearth of buildings in these areas suitable for bank premises, the Rural Banking Enquiry Committee recommended in paragraph 46 of its Report that banks should be permitted to keep their iron safes and chests for safe custody in the strong rooms of treasuries and sub-treasuries. It is understood that, in pursuance of this recommendation, some of the State Governments have already agreed to afford the required safe custody facilities to banks. In addition, we feel that the State Governments should provide adequate police guard to banks where considered necessary by bank managements, the cost of such guard being shared on an agreed basis between the State Government and the banks concerned.

Mobile Banks

133. In view of the vast size of the country and the difficulty of covering all rural areas with banking offices, it has been suggested to the Committee that banks should be encouraged to start mobile banks which would make banking facilities available even in small villages. In this connection, our attention has been drawn to the experiment of mobile vans started by a bank in Northern India. We understand that this bank has two such vans each of which operates over a radius of 30 miles around the branch to which it is attached ; each van visits about 25 villages a week, the individual villages being visited at least twice weekly. The mobile van is almost a complete sub-office of a bank and offers the usual banking facilities. Although mobile banking offices have certain obvious disadvantages such as the high operating cost and the lack of a fixed place of business, the Committee feels that they have useful potentialities in developing the banking habit and is, therefore, of the opinion that such efforts deserve encouragement and support.

134. An important proposal made to the Committee for strengthening the banking system and increasing the confidence of the public is that a system of deposit insurance on the lines of that obtaining in the United States should be introduced in India. This question was considered by the Rural Banking Enquiry Committee which suggested in paragraph 51 of its report that it should be "deferred until the process of consolidation of the banking system as envisaged by the Banking Companies Act has taken place, when conditions will be more propitious for the setting up of a practicable and satisfactory scheme of deposit insurance". A detailed scheme for the establishment of a Deposit Insurance Corporation in India, on the lines of the Federal Deposit Insurance Corporation in the U.S.A., has been prepared by one of the Members of our Committee. The salient features of the scheme are as follows :

Deposit Insurance

(*i*) The Deposit Insurance Corporation should be started by the Reserve Bank with an initial capital of Rs. 5 crores.

(*ii*) The Corporation will insure the deposits of all banks admitted, upto a maximum of Rs. 5,000 for each depositor.

(*iii*) Banks admitted to the insurance scheme will have to pay a premium assessed at the rate of 1/16th of 1 per cent on their total deposits. The corresponding rate in the United States is 1/12th of 1 per cent, subject to refund. When the Corporation works successfully, a part of the premium would be refunded to the banks as in the United States.

(*iv*) The annual levy of premium on Indian scheduled banks at the commencement of the scheme based on their deposits at the end of 1952 would work out to about Rs. 40 lakhs, which is only 1·2 per cent of their gross earnings during that year.

(*v*) The Corporation will have the power to control the rates of interest paid by banks on various classes of deposits.

135. The Committee has studied the scheme and feels that it merits further examination by banks. Some of the bankers, who appeared before the Committee, expressed the view that the cost involved is too high which banks can ill afford at the present juncture when their establishment charges as well as the rates of interest they have to pay on deposits are rising. The Committee, however, feels that the scheme has useful potentialities and recommends that it should be adopted if, after detailed examination, there is consensus of opinion amongst banks regarding the desirability of the scheme.

136. In addition to deposit insurance, a number of other proposals have also been made in order to increase public confidence in banks which would involve legislation if they are to be given effect to. For instance, it has been suggested that to draw cheques on a bank without sufficient funds should be made a criminal offence. It is stated that in India, if a person draws a cheque knowing that he has no funds in his account, he would be only liable in civil courts and only in rare

Other Proposals to Increase Confidence in Banks

cases would he be criminally liable. For this reason, it is represented, creditors in India are not willing to accept cheques and that if the law in India is made more stringent the cheque habit would develop rapidly. The Committee feels that this question requires more detailed examination and recommends that the Reserve Bank of India should study it further and take appropriate steps in consultation with Government. The Committee further advises that the banks, on their own, should develop the practice of closing such unsatisfactory accounts.

Banking Associations

137. The Committee's attention has been drawn to the fact that, apart from the increase in establishment charges, there has been a steep rise in the amount of interest paid by them on deposits and that this has affected banking profits adversely in recent years, particularly during 1953. While there has been a general rise in the interest rates following the increase in the Bank Rate in 1951, it has been represented to the Committee that the magnitude of the rise in interest paid has been partly due to unhealthy competition amongst the banks themselves. We are aware that though there are a few associations of banks in the country such as the Indian Banks Association and the Exchange Banks' Associations, they have not been able to reach general agreement in regard to matters of common interest such as rates on deposits, etc. Even among the members of the Indian Banks Association itself, we understand that there has been no general agreement on a number of important matters. It also appears that the Imperial Bank of India is not at present a member of the Indian Banks Association. The Committee feels that if there was a properly organised banking association in India representing all types of banks, it would add considerably to the strength of the banking system of the country and also carry due weight with the authorities. The Committee, therefore, strongly recommends that an All-India Association of banks should be brought into being at the earliest possible moment for protecting the interests of bankers and reaching agreements on matters of common interest. Such an Association could also engage in a positive effort to develop the banking habit in the country.

138. In this chapter, we have endeavoured to indicate the manner in which commercial banks can make more finance available to the private industrial sector. We feel that if energetic steps are taken to remove the various impediments in the way of banking development and efforts made to increase the resources of banks on the lines outlined by us, banks should be able to render further assistance to industries in the provision of working capital.

CHAPTER VII

Indigenous Bankers and Moneylenders

Scope of the Chapter

139. In Chapter IV, we have already indicated that one of the important sources of working capital for medium and small-scale industries is the indigenous banking communities of India such as the Multani shroffs. Similarly, the moneylenders in the smaller urban centres, some of whom make advances against hundis, also take some part in financing the short-term requirements of small-scale industries. The role which indigenous bankers and moneylenders play in the financial system of the country has been investigated by several Committees in the past, notably, the Central and the Provincial Banking Enquiry Committees (1929-31), the Agricultural Finance Sub-Committee (1945) and the Rural Banking Enquiry Committee (1950). No detailed statistics are, however, available regarding the operations of these agencies for the country as a whole, though some information with regard to the scale of operations of the members of certain indigenous banking associations such as those of the Multani shroffs and the Bombay shroffs has been furnished to the Committee by their respective associations. Nevertheless, the importance of the indigenous bankers and moneylenders in the financial structure of the country is too well-known to need further emphasis ; for instance, it is estimated that indigenous bankers finance about 75 to 90 per cent of he total internal trade of the country while the moneylenders have for centuries occupied a predominant position in the supply of finance to the agriculturists. We understand that the report of the All-India Rural Credit Survey, which has been conducted under the auspices of the Reserve Bank of India, will deal with the business methods, financial resources and the scale of operations of the indigenous bankers and moneylenders, but presumably it will concern itself mainly with the role of these agencies in supplying the credit requirements in the rural areas. Since in our report we have largely concentrated on the financial needs of the private industrial sector, we propose to deal in this chapter principally with the manner in which more resources could be made available to the indigenous banking agencies for meeting the short-term requirements of medium-scale and small-scale industries.

Indigenous Bankers and Moneylenders

140. It is difficult to distinguish between an indigenous banker and a moneylender. According to the Punjab Provincial Banking Enquiry Committee, the indigenous banker finances trade and industry rather than consumption while urban moneylender finances consumption rather than trade. We might add, however, that the village moneylender makes advances to agriculturists both for production and consumption. According to the Indian Central Banking Enquiry Committee, the expression "indigenous bankers" includes any individual or private firm receiving

deposits and dealing in hundis or lending money. Many of them engage in other forms of business such as trading and acting as commission agents.

Bombay Shroffs Association

141. Some idea of the magnitude of the operations of the indigenous bankers can be obtained from the fact that the annual turnover of the members of the Bombay Shroffs Association alone is estimated by that Association at around Rs. 100 crores; about 80 per cent of this is stated to be on account of sight hundi transactions and 20 per cent for commercial purposes. According to the figures collected by the Association from some of its members in connection with the All-India Rural Credit Survey and supplied to us, the average payment made by a member firm in respect of sight hundi transactions was Rs. 43 lakhs while the average receipt was Rs. 50 lakhs, the annual turnover thus being Rs. 93 lakhs. The highest figure for an individual firm was Rs. 1,51 lakhs in regard to hundis paid and Rs. 1,61 lakhs in respect of hundis presented. The hundis which arise out of trading and industrial activities are clean and payable on sight. The rate of interest charged by them on hundis varies from 4½ to 6 per cent plus a commission. While the main concern of the shroffs is the provision of short-term credit for trading purposes, the representatives of the Association who met the Committee stated that the small industries were obtaining considerable accommodation from them; some of their constituents also functioned as buying agents for such industries. Their resources consist principally of their own capital and the call deposits accepted by them; sometimes, they also receive fixed deposits. They represented that if rediscount facilities at the Reserve Bank were made available to them, they could ask their constituents to draw 90 days usance hundis instead of sight hundis which would help expand their business considerably. Since they lent mostly to traders, they did not come within the purview of the Bombay Moneylenders Act.

142. The organisation of the shroffs and the manner in which they supply funds and goods on credit from the cities to the villages is stated to be somewhat as follows. The city shroffs supply funds and goods on credit to the town shroffs, and the latter in turn supply these to the village shroffs. The village shroffs, in turn, give unsecured loans to agriculturists and small traders and also supply goods on credit. In this way the institution of the shroffs passes on credit from the cities to the towns and the villages, and makes it available without security in the semi-urban and rural areas.

Shikarpuri Shroffs Association

143. While the members of the Bombay Shroffs Association are generally engaged both in banking and commission agency business, there are certain classes of indigenous bankers in India who confine themselves almost exclusively to banking proper. The foremost among these are the Shikarpuri shroffs. According to the memorandum submitted by the Shikarpuri Shroffs Association to the Committee, these shroffs, who

have their headquarters in Bombay, carry on business in over 400 places in India. They finance principally traders and small industrialists on hundis and claim that they have outstandings of about Rs. 20 crores at any time. In turn, they borrow from banks on these hundis against limits sanctioned to them. On an average, they charge about 9 per cent to their constituents on hundis and pay 4½ to 5 per cent to banks for rediscounting them. In some of the States they are subject to certain provisions of moneylending legislation. In Bombay, for instance, they have to observe the stipulation in the Moneylenders Act regarding the rates of interest chargeable. Their hundi transactions which come within the definition of "loans to traders" are, however, exempt from the provisions of the Act. But for loans from one shroff to another, a licence appears to be necessary at present and they claim that these should also be exempt from the purview of the Act.

Linking of Indigenous Bankers with the Reserve Bank of India

144. In view of the importance of the indigenous bankers in the banking system of the country, the Central Banking Enquiry Committee, in paragraph 139 of its report, recommended that they should be brought into direct relations with the Reserve Bank along with joint stock and co-operative banks and thereby provided with rediscount facilities from that institution. This Committee, however, emphasised that as the Reserve Bank could rediscount only bank-endorsed paper, only such indigenous bankers as were engaged in banking proper or were prepared to discontinue their non-banking business, should be eligible to be placed on the approved list of the Reserve Bank in the same manner as joint stock banks. It further stipulated that such indigenous bankers must agree to have proper books of accounts kept in the usual recognised manner and to have them audited annually by recognised auditors and that such books should also be available to the Reserve Bank for inspection and audit.

145. The Reserve Bank of India Act, as originally passed in 1934, contained a direction to the Reserve Bank to make proposals to Government, within three years of its establishment, in regard to the extension of the provisions of the Act relating to scheduled banks, to persons and firms engaged in the business of banking. Accordingly, the Reserve Bank made certain proposals in 1937 for linking the indigenous bankers with the Reserve Bank ; its original scheme contemplated indirect linking of the indigenous bankers through the scheduled banks but this was subsequently revised more or less on the lines recommended by the Central Banking Enquiry Committee. The scheme, however, was not found practicable primarily because of the reluctance of indigenous bankers to shed their non-banking business. At the instance of the Bombay Shroffs Association, the question was revived again in 1941 when the Reserve Bank agreed not to insist on immediate shedding of non-banking business by the shroffs but suggested that they should segregate it from their banking business in the first instance and then discard it

within a stipulated period of time. This scheme also was not found quite acceptable by the shroffs but at their request the Reserve Bank agreed to keep the offer open so that it could be revived if the shroffs thought that it could be practicable at a later stage. We understand that the Bombay Shroffs Association has recently taken up the question again with the Reserve Bank.

Our Proposals regarding Indigenous Bankers

146. We have considered very carefully the question of linking indigenous bankers directly with the Reserve Bank, and feel that if they legally segregate their non-banking business and discard it within a specified period, maintain proper books of account and have them duly audited, and agree to make them available to the Reserve Bank for inspection, there should be little difficulty in integrating them with the organised banking structure. We accordingly recommend that the question of linking them directly with the Reserve Bank should be actively pursued by the Bank in consultation with the shroffs. At the same time, we realise that owing to the reluctance of most of these bankers to segregate their non-banking business as also due to the fact that the scheme for direct linking would involve legislation, it would take considerable time before the scheme could materialise. Meanwhile, we suggest that those shroffs who are doing their business by way of demand hundis should consider the possibility of introducing 90 days hundis where practicable. To encourage the introduction of usance hundis, we recommend that the Government of India should consider the question of reducing the rates of stamp duty on such hundis. By a notification dated the 13th January 1940, Government reduced the stamp duty chargeable on usance bills of exchange made or drawn and payable in India and having a usance not exceeding one year, to two annas for every one thousand rupees or part thereof, and we feel that, in order to encourage the development of a bill market and to facilitate the linking of indigenous bankers with the Reserve Bank, a strong case exists for a further reduction in this rate.

Proposals regarding Shikarpuri Shroffs

147. Pending direct linking of the indigenous bankers with the Reserve Bank, we consider that steps should be taken to encourage the rediscounting by the Reserve Bank of the usance bills of indigenous banking communities, such as Shikarpuri shroffs, through the scheduled banks. Although the indigenous bankers finance principally the private trading rather than the industrial sector, they do provide, as already stated above, working capital for medium-scale and small-scale industries, and it will assist in making additional working capital available to these industries if the bills of these bankers, commonly known as Multani hundis, are made eligible by the Reserve Bank as security for advances to scheduled banks. In this connection, it has been suggested that, as the individual hundis endorsed by the shroffs are often for comparatively small amounts, the Reserve Bank of India should examine whether it could accept a bigger hundi supported by the small ones for

purposes of rediscount. We commend this proposal for the consideration of the Reserve Bank and also suggest that if there are any legal difficulties in the way, they may take necessary steps to have the Act suitably amended. In this context, we may recall the arrangement which was in force for the expansion of currency prior to the establishment of the Reserve Bank. We understand that, before 1935 the Imperial Bank of India deposited in Government portfolio all trade bills available to it and maintained a Government Portfolio Bill Register. The Imperial Bank further gave a certificate to the Controller of Currency that the bills held were "in furtherance of trade". The bills deposited included Multani bills which the bank had discounted as well as other inland bills held for collection. The procedure was in existence at the time of the Presidency Banks and, it is learnt, was adopted by the Imperial Bank as early as 1922.

148. One of the difficulties which these shroffs experience is stated to be that banks do not discount their bills drawn by parties in places where the banks do not have their offices. Since about half the number of towns in India do not at present have a banking office, the restriction referred to above retards the extension of bank credit through shroffs in such towns. We recommend that the banks may consider the discounting of bills drawn by traders and small industrialists in such places, provided that the banks are otherwise satisfied, after due inquiries, regarding the standing of the parties.

149. While the Committee has recommended that Multani hundis should be made eligible for rediscount at the Reserve Bank, it feels that the shroffs, on their part, should take steps to reform their business practices in certain directions. In the first place, they should maintain proper books of accounts, preferably in the national language or English. Secondly, an Association representing shroffs all over India should be formed, the constitution of which should be subject to the approval of the Reserve Bank.

150. The attention of the Committee has been drawn to a number of other difficulties, mostly of a legal character, experienced by these bankers. It is stated, for instance, that suits on hundis are transferred to long causes and that the rate of interest on decretal amounts allowed by the Court is only 4 per cent irrespective of the hundi rates. Since it is estimated that only about one per cent of their transactions is involved in such suits, the Committee does not feel that any action is necessary in this matter. It has also been represented that attempts are being made to apply the Moneylenders Acts to them to an increasing extent. The Committee recommends that since the shroffs are engaged mainly in lending to trade and industry, they should be exempted from the purview of these Acts. The Committee also feels that the operation of these Acts, in the absence of alternative institutional credit agencies is needlessly restricting finance to the private sector. This aspect of moneylending legislation is dealt with below in greater detail.

151. We have already referred to the importance of the role played by moneylenders in the credit system of the country. Moneylenders in India may be generally divided into two classes, professional and non-professional, and the former class may again be sub-divided into urban and rural. The semi-monopolistic position enjoyed by the rural moneylenders has encouraged many of them to engage in undesirable practices ; in paragraph 111 of its report, the Central Banking Enquiry Committee has referred to some of these questionable practices such as demand for advance interest, demand for a present for doing business, insertion in written documents of sums considerably in excess of the amount lent, etc. In order to protect the agriculturists from the malpractices of the moneylenders, various legislative measures have been taken from time to time such as the Dekkhan Agriculturists' Relief Act, 1879 and the Usurious Loans Act, 1918 ; after the economic depression of 1929, moreover, in view of the fall in prices, which increased distress among the agriculturists, more comprehensive legislation was undertaken to provide relief to them from the burden of indebtedness. In recent years, further legislation of a long-term character has been enacted in several States in regard to moneylenders with the object of regulating this segment of the credit machinery.

Moneylenders and Money-lending Legislation

152. A list of important Acts in force in various States in India for regulating the business of moneylenders, according to the information available to us, is given in Appendix XIV. In general, the enactments provide for registration and licensing of moneylenders, for maintenance of accounts in a prescribed form, for furnishing statements of loans to debtors, and for the regulation of rates of interest on loans. The maximum rates of interest on secured and unsecured loans permissible under the various Acts have been tabulated in Appendix XV. We understand that the role of moneylenders in rural finance is under examination by the All-India Rural Credit Survey which is being conducted under the auspices of the Reserve Bank and we do not, therefore, wish to make detailed observations regarding the effects of the working of the Acts on the credit system. From the evidence placed before us, however, it appears that one of the results of the legislation has been a decline in the activities of the professional moneylenders and an increase in those of non-professionals. Further, it seems that the legislation, in general, has not proved as effective as it was intended to be in view of the lack of alternative institutional credit agencies. We also understand that some provisions of the legislation have been applied to indigenous bankers ; in our opinion, this is unjustified as the indigenous bankers are principally engaged in financing trade and industry and not consumption. Finally, we would emphasise that the legislation in general has tended to restrict credit to the private sector and that one of the ways in which the practices of money lenders can be improved is not so much the enactment of further legislation as the establishment of alternative institutional credit agencies, which could provide effective competition to the moneylenders.

153. In this and the preceding chapters, we have dealt mainly with the agencies providing short-term capital to industry and trade in the private sector. The most important problem facing the private industrial sector in the field of finance, however, is the shortage of long-term capital. We propose to deal with this aspect of the problem in the next chapter.

CHAPTER VIII

Long-term Financial Requirements of Industries

154. In this and the next two chapters we shall examine principally how increased long-term finance could be made available to the private industrial sector. In Chapter IV, we have indicated that, apart from foreign investment and the savings of the industrial enterprises themselves, the main sources of industrial finance in India are (*i*) the investing public, (*ii*) managing agents, (*iii*) institutional investors such as insurance companies, investment trusts and, to a limited extent, commercial banks, (*iv*) the Central and State Governments and (*v*) specialised corporations such as the Industrial Finance Corporation of India and the State Financial Corporations. We have already considered earlier the factors inhibiting investment in the private sector by the general public and the enterpreneurial class, as also the part played by the Central and State Governments and the commercial banks in the provision of long-term finance to industries. In the present chapter, we propose to deal mainly with the question of increasing the usefulness of the role played in the finance of industries by insurance companies and the Industrial Finance Corporation of India. In the subsequent two chapters we shall refer to the necessity for the establishment of more specialised institutions for the provision of equity and long-term loan capital to small-scale, medium-scale and large-scale industries.

Domestic Capital Formation

155. At this stage, it will be useful to consider the *raison dètre* for establishing such development corporations for provision of long-term industrial finance. The Committee has received a considerable volume of evidence in regard to the present unfavourable climate for investment and the drying up of the sources of investible funds as a result of various Government policies, changes in the distribution of incomes, disappearance of the former princes and zamindars, high cost of living, etc. ; but underlying these, there are factors of a fundamental character such as scarcity of real capital and the slow rate of new capital formation in underdeveloped countries. In many economically advanced countries, net domestic capital formation is estimated at atleast 10 per cent of the national income, and in some cases substantially higher, while in most underdeveloped countries, it is estimated not to exceed 5 to 6 per cent.* We do not wish to go in detail into the various suggestions made to increase the rate of capital formation such as drawing out hoards of gold, currency and foreign exchange, establishment of more savings banks, taxation, inflation, etc., some of which are outside our terms of reference. What we wish to emphasise is that the mobilisation of domestic capital as well as the development of a capital market which would ensure a regular flow of new money into industries at a reasonable rate of interest is necessarily a long-term process.

* *Vide* "Measures for the Economic Development of Underdeveloped Countries" : U.N.O. : p. 35.

In the meantime, in order to stimulate industrial development and ensure that capital flows into the most productive channels, it is essential to establish corporations in which the Government, the central bank, commercial banks and insurance companies and other financial institutions could all participate. The Committee is of the opinion that every endeavour should be made to increase the usefulness of such of these corporations as have already been established and to form new corporations for the provision of long-term and equity capital to industries.

Stock Exchanges

156. This does not, however, mean that due emphasis should not be laid on the question of improving the existing mechanism of the capital market, including the promoting, issuing and underwriting agencies and the stock exchanges. We have already referred to the desirability of forming a consortium for underwriting the issues of shares and debentures of leading industrial companies. Further, we consider that it is of the utmost importance that Government should do everything possible to maintain healthy trading conditions on the stock exchange. During the last eight years, prices on the stock exchange have, in general, slumped heavily and this has made the investor increasingly shy of investing his savings in new industrial ventures. It has been estimated, for instance, that the value of the shares of new companies floated since 1943 and quoted on the Calcutta Stock Exchange has depreciated by Rs. 282 crores. Apart from the general investment climate, there is little doubt that the undesirable practices indulged in by a section of the business community of trafficking in managing agencies has also been responsible for the fall in values. According to the evidence placed before the Committee by the Chief Executive of a leading life insurance company, apart from statutory restrictions, the deterioration in the standard of industrial management in a number of cases has been one of the factors which has deterred his company from investing larger funds in industrial shares and debentures.

Relaxation of Restrictions under the Insurance Act

157. This brings us to the question of amending the Insurance Act so as to allow insurance companies to invest a larger proportion of their funds in the shares and debentures of industrial companies. As we have stated in Chapter IV, as on the 31st December 1952, such investments of Indian insurance companies amounted to Rs. 41·79 crores or 14·3 per cent of their total assets of Rs. 292·92 crores. Even within the permissible limits of the Insurance Act there is still fairly large scope for investment of life funds in industrial shares and debentures. In recent years, it has been estimated that, apart from the U.S.A. and Canada, most of the personal savings even in economically advanced countries like the United Kingdom is done by way of contractual obligations under life insurance and provident fund schemes. In India, though life insurance business is relatively undeveloped, insurance companies have been playing an increasingly important

role in recent years in mobilising savings and making them available for investment in industries. According to the figures furnished to the Committee by a leading firm of stock-brokers, of the issues made through them of debentures and preference shares in the Calcutta market during the last three and a half years, insurance companies and banks have taken up 79·5 per cent while investment companies and provident fund and such like have subscribed 12.0 per cent and individual investors only 8·5 per cent.

158. The Committee feels that if the present restrictions contained in Sections 27 and 27A of the Insurance Act are slightly relaxed, life insurance companies would be able to make more funds available to the private sector. We are aware that many of these restrictions were imposed on the recommendations of the Sir Cowasji Jehangir Committee, but feel some of these have proved very onerous in practice and that they could be relaxed without prejudice to the safety of the insurers or that of the policy-holders. At present under Section 27 of the Insurance Act, the funds of life assurance companies as defined in that Section are required to be invested as follows : 25 per cent in Government securities, 25 per cent in Government securities or other approved securities, and the balance of 50 per cent in approved investments specified in Section 27A (1) and (2). To enable insurance companies to play a larger part in meeting the growing financial needs of the private sector, we recommend that Section 27 may be amended so as to require the companies to invest their funds as under : 25 per cent in Government securities, 20 per cent in Government or other approved securities and the balance 55 per cent in other investments specified in Section 27A.

159. We are further of the opinion that the restrictions contained in sub-sections (3) and (4) of Section 27A, which require that not more than 2½ per cent of the liabilities should be invested in any one company, restrict the investment activities of insurance companies. We feel that, without prejudice to the underlying object of these sub-sections, which is to prevent interlocking and acquisition of control over other companies, the limit of 2½ per cent referred to in both sub-sections 27A (3) and (4), and of 2 per cent prescribed in the former sub-section, can be raised to 5 per cent.

160. It has been represented to us by insurance interests that there are a number of anomalies in the Insurance Act which inhibit investment by insurance companies in the shares and debentures of industrial concerns. Some of the anomalies have been given in Appendix XVI. It has been further represented that shares of societies registered under the Co-operative Societies Act which are guaranteed as to payment of interest and capital by State Governments do not come under the definition of "approved securities" in Section 2 (3) of the Act. The Committee feels that the matter should be examined in detail by Government in

consultation with insurance interests with a view to removing the anomalies in the provisions of the Insurance Act.

Industrial Finance Corporation of India

161. We shall now proceed to examine the various suggestions made to the Committee in order to increase the usefulness of the Industrial Finance Corporation of India.* A brief account of the organisation and functions of the Corporation has already been given in Chapter IV. The general character of the evidence we have received has been rather critical of the working of the Corporation as it has operated so far though in many respects the criticisms could not be substantiated. However, some representatives of industry and commerce have admitted that the Corporation has been useful in rendering assistance to industries. Some of the criticisms made were in respect of (*i*) undue delay in disposal of applications, (*ii*) the imposition of onerous terms for loans, and (*iii*) the charging of high rates of interest on loans. We shall examine these criticisms first and then proceed to deal with suggestions offered to us to make the Corporation a more useful instrument of industrial finance.

Delay in Sanctioning Loans

162. A number of witnesses have complained regarding the delay in sanctioning loans. We are, however, satisfied that, according to the records of the Corporation, out of 130 loans sanctioned till November 21, 1953, 16 were dealt with within one month, 20 in two months, and 24 in three months. We further understand that one of the principal reasons for the delay was that the schemes put up were not properly worked out in adequate detail and that the information wanted could be secured only after protracted correspondence. Another main reason for the delay was the time taken up in order to complete the necessary legal formalities. In this connection, a suggestion has been received that the Corporation should engage more than one firm of solicitors in important cities. We commend this suggestion for the consideration of the Corporation. On the whole, we feel that though there might have been delays in the initial stages of the Corporation, when the institution had to build itself up, the procedure has since been systematised and that this should obviate any unnecessary delays in future.

Terms for the Loans

163. The next criticism against the Corporation relates to onerous terms stipulated by it for the grant of loans. One condition against which criticism has been made is that, apart from retaining a margin of 50 per cent on mortgage loans, the Corporation insists generally on the guarantee of the managing agent as well. The Committee takes it that, in deciding

* Shri V. R. Sonalker, Managing Director of the Corporation and a Member of the Committee, had taken the opportunity of putting forward the viewpoint of the Corporation on the several points dealt with in the report, but would, on account of his connection with the institution and on account of the fact that many of the points had already received the attention of the Board, wish it to be noted that he does not like to record his views one way or the other and would like these views to be known as the views of the rest of the Members of the Committee.

upon an application for a loan, the Corporation not only satisfies itself about the adequacy of margin and the valuation of the property mortgaged to it but also keeps in view the respectability and the managerial ability of the parties in charge of the industries concerned. The Committee also believes that the Corporation keeps in view the financial stake which the managing agent has in the concern for which the loan is sought. While it may be contended that, in order to induce a greater sense of responsibility on the part of the managing agents, additional security has to be asked for in some cases, the Committee is of the opinion that in such cases where the Corporation is satisfied that the managing agent has a reasonable financial stake in the company, and is also regarded as eligible in other ways, this condition need not be insisted upon. It appears to the Committee that as there is a growing practice of managing agency firms registering themselves as limited liability companies, the capital of which in most cases bears little relation to the total value of the assets of the companies managed by them, guarantees by managing agents would in actual practice hardly provide the additional security sought for. The Committee is of the opinion that in the management of an institution like the Industrial Finance Corporation of India, the element of discretion must play an important part in its decisions regarding the determination of the terms and conditions on which loans are granted by it.

Rates of Interest on Loans

164. We have heard frequent criticisms of the rates of interest charged by the Industrial Finance Corporation of India being onerous and proving an impediment to the undertaking of fresh industrial enterprises. Having regard to the rate of interest the Corporation has to pay on its bonds, and the necessity of providing for establishment expenses and bad debts, the Committee feels that the complaint, in general, is not valid. At the same time, it is undoubtedly true that, particularly in the case of new industries, it takes anything between 3 to 5 years to reach a stage of profitable production and that, in the meantime, the burden of interest charges proves onerous. The Committee, therefore, feels that where possible, the Corporation should try to reach a workable arrangement with the borrowing company by which the rate of interest on loans granted by the Corporation should be reduced on condition that the assisted company compensates the Corporation when it reaches a profitable stage by repaying to the Corporation the difference between the reduced rate and the Corporation's usual lending rate.

Corporation to make Loans in the Form of Debentures

165. A number of suggestions have been received which aim at increasing the usefulness of the Corporation. It has been suggested, for instance, that in order to promote better mobilisation of capital, the Corporation should endeavour to give loans in the form of debentures which can, at suitable times, be gradually placed in the market. The Committee agrees with the suggestion and feels that, in course of time, the Corporation should be able to place these debentures on the market as they will

carry a sort of assurance that the debenture loan concerned was granted after due scrutiny by the Corporation. As the Corporation at present is granting loans on the basis of certain arrangements for periodical repayment, the same objective can be attained by arranging drawings of debentures for repayment at stated periods ; in the alternative, a provision may be made that the borrower creates a sinking fund by making annual contributions which would ensure repayment of the debentures at the stated period.

Underwriting of Shares and Provision of Equity Capital

166. Although the Corporation is empowered to underwrite shares under Section 23 of its Act, we understand that it has not so far undertaken this business. We are advised that one of the reasons for this is that under the Act, the Corporation has to dispose of any shares which it may have to take up in fulfilment of its underwriting liabilities within a period of 7 years. The Committee is of the opinion that this limitation should be removed. The Committee also feels that the Corporation should explore the possibility of reaching arrangements with borrowing companies by which the Corporation may retain the option of converting the whole or part of the loan granted by it at stated periods, on such terms as may be mutually agreed upon, into equity capital.

Banks to act as Agents of the Industrial Finance Corporation

167. It has been suggested to us that the Industrial Finance Corporation should examine the possibility of making loans through scheduled banks acting as agents of the Corporation. It is claimed that the advantage of such an arrangement would be that banks, particularly those working in areas where the industrial concerns are operating, can keep themselves better informed about the progress of such concerns than the Corporation and that this may help in the recovery of such loans. On the other hand, it is pointed out that the Industrial Finance Corporation of India has already made arrangements to start regional branches to exercise the necessary control and supervision over industrial concerns to which loans are granted. The Committee does not see any particular advantage in accepting this suggestion.

Participation by Banks in Loans of the Corporation

168. A further proposal made to the Committee is that the scheduled banks may be given an opportunity of participating in loans sanctioned by the Corporation, provided the banks are satisfied, after their own scrutiny, about their interests in such loans. The Committee is of the opinion that this constructive approach on the part of the banks needs to be encouraged and would, therefore, recommend to the Industrial Finance Corporation of India to examine this suggestion in consultation with banks and insurance companies which are likely to be interested in such participations. The Corporation should also examine the possibility of guaranteeing loans advanced by scheduled banks or insurance companies. Our observations apply equally to the State Financial Corporations and other similar institutions.

169. Under Section 24 of the Industrial Finance Corporation Act, the maximum limit for loans to a single industrial concern has been fixed at Rs. 1 crore, with the proviso that this limit shall not apply to such loans of the Corporation as are guaranteed by the Central Government. It has been represented to the Committee that this limit should be relaxed even when there is no Government guarantee. Although Rs. 1 crore is a reasonably high ceiling, the Committee feels that in the case of industries of national importance or key industries the ceiling should be relaxed. Our recommendations in this and some of the preceding paragraphs will involve an amendment of Sections 23 and 24 of the Industrial Finance Corporation Act and we suggest that the Corporation may examine the question and take suitable action in consultation with Government.

Limit on Loans

170. Although under Section 14 of its Act, the Corporation is authorised to appoint such advisers as it may consider necessary for the efficient performance of its functions, we understand that in view of the difficulty of getting suitable personnel, the Corporation has so far appointed only one such adviser. We recommend that this Corporation, together with the proposed Industrial Development and Finance Corporation, should take the initiative in starting a co-operative organisation of technical advisers the cost of which may be borne on an agreed basis between the above Corporations, the Government of India and the State Financial Corporations. Such a co-operative organisation will be in a position to offer attractive salaries to suitable technical advisers. This matter has been dealt with at greater length in the next chapter.

Technical Advisers

171. Before concluding this chapter, the Committee wishes to make a brief reference to the recent debates in Parliament on the working of the Industrial Finance Corporation of India. These debates have caused considerable misgivings to the private sector. The Committee feels that if suitable conventions could be established, as in Great Britain, according to which Parliament does not intervene in the day-to-day working of such Corporations but only debates important matters of policy, it will assist considerably in increasing the usefulness of such Corporations and inspiring greater confidence in them without, at the same time, detracting from over-all Parliamentary control.

CHAPTER IX

Small-Scale Industries

172. We now turn to the special problems of small-scale industries. In accordance with the line we have followed so far, we exclude from our purview village or cottage industries which, though they are usually classed with small-scale industries, are essentially ancillary to the agricultural sector. The question of providing financial facilities to such cottage or village industries is linked up with the question of rural finance as a whole. Apart from these, there are various production units in which the investment of capital and labour are relatively small and which are engaged largely in the production of articles that are ancillary to or competitive with the products of the so-called large-scale industries. We are, in the main, concerned with small-scale industries of this type, that is to say, industries which are not integrated with the rural economy and which consist of units with assets say, between Rs. 10,000 and Rs. 5 lakhs.

173. Even though such small industries constitute an important element in the Indian economy, the statistical data available about investment, output or employment in them is very meagre. However, an idea of their importance can be formed from certain broad estimates made recently by the National Income Committee. According to these estimates, the value of net output of "small enterprises" in 1950-51 was of the order of Rs. 910 crores while that of "factory establishments" was around Rs. 550 crores, and the number of workers employed in small enterprises in 1950-51 was about 11·5 million as against 3 million working in factory establishments. It is however to be noted that the category of small enterprises as defined by the National Income Committee also covers cottage industries. These cottage industries probably account for the greater part of the output and employment attributable to "small enterprises". But even if small industries that are not village or cottage industries constitute, say, a third of the total, their contributions to output and employment would be very substantial. Besides, a number of small units which come under the Factories Act are probably included in the National Income Committee's definition of "factory establishments".

174. Despite the importance of small-scale industries and the awareness of the need for putting them on a sound basis, very little has been done by way of building up agencies for financing them or for organising their activities properly. Many of the small industries now existing were started during war and post-war years when sellers' markets existed for their products and they were in general undercapitalised. With the change in the nature of the markets, they have come to experience serious difficulties in regard to both fixed and working capital. Most of these small units are owned by individuals, partnerships or private limited companies, and the initial investment has been provided by the promoters themselves or by their friends. The difficulties experienced by small-

scale units are also experienced by medium-sized units, or firms with gross assets ranging from Rs. 5 lakhs to Rs. 20 lakhs. Even where some of the small and medium-sized units are organised as joint stock companies, their shares are not quoted on the principal stock exchanges of the country and have little marketability.

175. Besides the handicaps which follow from undercapitalisation, there are various other features of small industries which make it difficult for them to borrow from organised credit institutions. The bigger joint stock banks are unwilling to undertake the financing of small industries because of inadequacy of security that the small industries can offer, lack of standardisation of products, difficulties of marketing such products, and unsatisfactory managerial ability. Failure of several small banks, which had invested substantial amounts in small industry in certain areas as for instance West Bengal, has also added to the unwillingness of the bigger commercial banks to provide short-term capital to the small units. These are real difficulties which limit the activities of well-established commercial banks in this field. In any case, the needs of small industries remain largely unsatisfied today and in consequence they have to find their working capital either out of their own resources or through borrowing from the non-organised and high-interest lenders like shroffs, private traders and other moneylenders.

176. The Committee has also been impressed by the evidence placed before it relating to the hardship caused to small industries by delay in payments by Governments and Government agencies against goods supplied to them. The products of several small-scale industries engaged in the manufacture of engineering articles, mechanical appliances, textiles, leather goods, stationery, etc. are bought by Governments including the railways. With the commendable object of encouraging domestic industries Government and Government agencies are pursuing the policy of making their stores purchases as far as possible within the country. While steps are being taken to increase Government offtake of the products, there does not seem to have been any concerted action to evolve a procedure whereby payments against such purchases are made promptly. Where goods sold to Governments are despatched by rail, it is stated that in some cases payment is made by Government to the extent of about 90 per cent of the value of shipment against railway receipts. But a large portion of sales to Government is done locally and in such cases, payment is made only after inspection and certificate of receipt of goods by the indenting department ; the delay entailed in this process is very considerable. Further, where small industries undertake the job of processing materials supplied to them by Governments, we are told that they are often required to deposit an amount equal to the value of such raw material with Governments. All these result in the locking up of the already slender liquid resources at the disposal of small-scale industries and intensify their problems of working capital. Because of the delay involved in collecting payments from the

Governments, banks are unwilling to lend against Government bills. It is therefore not open to the industries to finance their operations in the intervening period by borrowing against payments due to them.

177. The Committee is satisfied that the hardship caused to small industries on account of the delay in receiving payment is genuine and that there is an urgent necessity for simplifying the procedure. As mentioned in Chapter VI (paragraph 112), we have already brought this fact to the notice of several State Governments and have urged upon them the need for a more expeditious settlement of bills. The representatives of State Governments whom we met have assured us that all efforts will be made to ensure prompt payment to suppliers. We feel that the immobilisation of the liquid funds of small-scale industries can be prevented if Governments open letters of credit in favour of suppliers stipulating for payments on the presentation of inspection notes by a duly authorised officer of the indenting department. We therefore recommend that the Central and State Governments should explore the possibility of instituting such a system at an early date.

178. In the course of our inquiry it has been represented to us that it would facilitate the provision of credit to small and medium-scale industries if banks could lend to them on hypothecation rather than pledge. One of the reasons for banks being reluctant to accept hypothecation is that there is no practice of registering hypothecation in the case of proprietary firms and partnerships and in the absence of such practice there is risk of losing the security as there is no notice to other creditors. If the law and procedure governing registration of hypothecation could be simplified and cheapened, then the system of lending by banks on hypothecation bonds of proprietary firms and partnerships could be enlarged. In the case of joint stock companies, a small fee of Rs. 5 is payable for registering the charge by way of hypothecation with the Registrar of Joint Stock Companies. But in the case of proprietary firms and partnerships registration has to be with the Registrar of Assurances and an *ad valorem* fee is payable. If the registration fee could be lowered to Rs. 5 when hypothecation bonds are registered with the Registrar of Assurances, it would facilitate the grant of loans on hypothecation to proprietary firms and partnerships by commercial banks.

179. It is not only in respect of short-term capital that small-scale industries have serious difficulties. Their problems in regard to medium and long-term capital are also acute, despite the fact that certain agencies have been created specially for this purpose. We have already referred in Chapter IV to the arrangements made by State Governments to provide assistance to small industries through legislative measures such as the State Aid to Industries Acts, and through the formation of Financial Corporations under the State Financial Corporations Act of 1951. It is no doubt true that, in form, the State Aid to Industries Acts or Rules framed for that purpose by Governments are comprehensive and allow

for a variety of ways in which Governments could help to promote new or nascent industries, industries in underdeveloped areas and cottage industries. But in actual operation they amount to little more than token assistance. As observed in Chapter IV, loans made available by six Part 'A' and two Part 'B' States under the State Aid Acts or Rules and outstanding as at the end of March 1950 amounted to only Rs. 3·82 crores. Figures for other States in which such legislative or executive provisions exist are not available ; but it would seem that the disbursements in those States also are insignificant. As for the State Financial Corporations, they are very recent in origin and many of them have yet to commence operations. But experience in Punjab and Madras where such Corporations have been functioning for some years has not been very encouraging. The Punjab Financial Corporation has for instance lent so far only Rs. 8·04 lakhs. In respect of the Madras Industrial Investment Corporation, which has an authorised capital of Rs. 2 crores and subscribed capital of Rs. 1·27 crores, loans outstanding at the present time amount to only Rs. 94 lakhs.

180. Viewed against the financial requirements of small industries, these are very disappointing figures. The unimpressive record of assistance under the State Aid to Industries Acts or Rules is attributed to several factors. For one thing, the budget provision for such assistance is usually very small. In 1953-54, for example, it was only Rs. 3 lakhs in West Bengal, Rs. 12 lakhs in Madras, and Rs. 7 lakhs in Mysore. Because of the small budgetary allocation applications for sizeable sums cannot often be entertained, for fear of exhausting the amount in meeting the needs of a few relatively big borrowers. We feel that the bodies responsible for dispensing aid under these Acts or Rules cannot experiment or enlarge their activities in order to render effective help to the small industries unless larger provisions are made in the budget. Such a move would make it possible for applications for reasonable amounts as also in larger number to be entertained without running the risk of confining the assistance to a few applicants only.

181. We are informed that in several States, loans granted fall short of even the small provisions made in the budget. In Bombay, for example, the amount lent in 1952-53 is estimated at Rs. 27,000 only as compared to the annual budget provision of Rs. 10 lakhs. Experience in Madras and West Bengal also has been similar. This paradoxical situation was attributed by several to the onerous terms and procedure involved in obtaining loans under the State Aid Acts. Prospective borrowers fight shy of using the facilities under the State Aid to Industries Act on account of the delay involved in securing the loan and the right of the concerned Government to exercise control over distribution of profits as well as management of the industry during the currency of the loan. We are further informed that borrowers have to supply, along with their applications, detailed information regarding their present financial position, record of working in the past 3 or 4 years and a tentative profit and

loss account for the period of expansion. After the application is examined and the decision to grant a loan is taken, we are told that in some States it was necessary under the Act to advertise the decision of Government and call for any public objections that there may be to the granting of such a loan. Such objections are to be raised within a month of the date of announcement and the loan is finalised only after the objections, if any, are scrutinised. While this procedure might in certain cases disclose unrecorded claims on the assets of the company and thereby help in securing Government loan properly, it also adds to delay in obtaining a loan. Further, it has been represented to us that advertisement of the fact that a concern has sought a loan from Government affects its standing adversely ; and in consequence, such concerns find it even more than usually difficult to approach the other sources of short-term or long-term finance, if the application is rejected on account of public objections. The Committee feels that all these procedural difficulties have tended to make the State Aid to Industries Acts or similar Rules of Governments much less useful than they might have been. In the present state of development of the country such measures of State assistance have an important part to play ; it is therefore essential that every effort should be made by Governments concerned to make the procedure of borrowing from them as simple as possible.

182. We have already referred to the statutory bodies set up by the Central and State Governments for providing long-term finance to industries. Of these, the Industrial Finance Corporation of India cannot be of much assistance to the small-scale industries since it can lend only to public limited companies and co-operative societies registered under the Co-operative Societies Acts, whereas a majority of small-scale industries consist of proprietary firms, partnerships or private limited companies. Also, the loans required by such units are too small to be handled conveniently by the Corporation, at least in the present state of its organisation. In view of the fact that several States have set up or are contemplating State Financial Corporations, it would seem convenient and proper for the Industrial Finance Corporation of India to concentrate on medium and large-scale borrowers.

183. In Chapter IV we referred to the State Financial Corporations set up recently by several Governments in accordance with the provisions of the State Financial Corporations Act, 1951. The capital structure of these Corporations are described in Appendix VI. The authorised capital of each of the Corporations that have been established so far in Punjab, Bombay, Hyderabad, Travancore-Cochin, Saurashtra and West Bengal is Rs. 2 crores of which Rs. 1 crore has been issued. In the case of the Madras Industrial Investment Corporation Rs. 1·27 crores out of the authorised capital of Rs. 2 crores have been subscribed. These State Corporations are empowered to issue and sell bonds and debentures up to five times the amount of their paid-up share capital and reserve fund. Further, the Corporations may also accept deposits

from the public for periods not less than 5 years, up to an amount equal to the paid-up capital. So far, only the Madras Industrial Investment Corporation has advertised for five year deposits on which a rate of interest of 4 per cent is allowed. But we are informed that that Corporation has not been able to attract any such deposits. Even allowing for the fact that it would be extremely difficult for the State Financial Corporations to augment their resources through long-term deposits, the amounts that they are authorised to raise in the form of share capital and bonds or debentures would be very considerable. With these resources they can be of very considerable benefit to both small and medium-sized industries, since under the Act governing their operations they can lend to any one party up to 10 per cent of their paid-up share capital or Rs. 10 lakhs, whichever is less. Though the Act prohibits direct subscriptions by the Corporations to the shares or stock of any company, they can grant mortgage or debenture loans for periods not exceeding 20 years. They can also guarantee loans floated in the public market by industrial concerns provided such loans have a period of maturity of 20 years or less. Further, the State Financial Corporations are empowered to underwrite the issues of stocks, shares, bonds or debentures by industrial concerns, subject to the condition that no part of such issue is retained by the Corporation for a period exceeding seven years. While the guaranteeing and underwriting functions of the Corporations can obviously be of benefit to public limited companies only, the Corporations can grant mortgage loans to firms which are run on a proprietary, partnership, or private limited company basis.

184. It is clear from the brief description of the functions of State Financial Corporations and of the methods open to them for raising working funds that they can be of substantial help to small and medium-scale industries in procuring long-term finance. As we have already indicated, many of these Corporations are yet to start functioning and it is premature to pass any judgement on their working. We would however like to emphasise that great care has to be exercised in the starting of such Corporations and in formulating proper rules of procedure. In our view, such Corporations should not be considered a necessary adjunct to every State Government, irrespective of its resources and the needs of the territory covered by that particular Government. It is for instance possible that the main requirements of small industries in some of the smaller States can be met through a proper working of measures like the State Aid to Industries Acts ; such States should not be too hasty to establish independent State Financial Corporations. Should State Financial Corporations be started irrespective of the needs or potentialities of small industries, it will only result in the immobilisation of funds put at the disposal of such Corporations by the State Government, Reserve Bank of India, and private agencies. We consider it essential that proposals for establishing State Financial Corporations must have the approval of the Reserve Bank of India, which should carefully examine the scope for such an institution in the State concerned.

185. The Planning Commission have suggested that the Government of India should consider the possibility of making regional arrangements for the establishment of industrial finance corporations for those States which may not be able with advantage to support independent financial institutions. We presume that what the Planning Commission have in mind is an arrangement whereby such States could participate in the Corporation set up by an adjoining larger State. This would enable some of the State Financial Corporations to cater for the needs of small industries in more than one State. However, under the State Financial Corporations Act, 1951, joint participation by States in the manner suggested above does not seem possible, since Section 3(1) of the Act lays down that "The State Government may, by notification in the Official Gazette, establish a Financial Corporation for the State.........." We recommend that the Government of India should take steps to amend the State Financial Corporations Act, 1951, in a manner that will permit joint working of a financial corporation by two or more adjoining States.

186. It is also important that the initial board of directors and the managing personnel of the State Financial Corporations should be selected with great care. Since such Corporations should be run on business lines, it would be desirable that the chief executive has intimate knowledge of banking and of industrial finance. In the selection of such personnel, the Reserve Bank of India, with its wide experience, can and should play an important role. We are informed that at present, the Reserve Bank is consulted and offers suggestions through its representatives on the board of directors. But the selection of personnel is done by the State Governments, and there are instances in which persons with inadequate knowledge or experience of industrial finance are appointed as chief executives. Such selection, based on considerations other than those relevant to the proper conduct of a financial institution, might hamper the efficient working of State Financial Corporations. In view of this risk, we recommend that initially, the personnel responsible for managing the affairs of State Financial Corporations should be selected in consultation with the Reserve Bank of India.

187. While discussing the position of the Industrial Finance Corporation of India, we have stressed the importance of avoiding undue Parliamentary interference in the day-to-day working of that institution, and the need for evolving conventions regarding discussion of the annual reports of that Corporation in the Parliament. We would like to advert to the matter again here and emphasise the need for developing similar conventions in regard to the relations between State legislatures and State Financial Corporations. Without such an arrangement, the management of State Financial Corporations will tend to become unduly cautious and regulation-minded, with consequent rigidity in operations.

188. The State Financial Corporations are, as we have said often, in a formative stage and in starting them on the right lines the Reserve Bank of India can be of great assistance. The Reserve Bank has gained, through its representatives on the boards of directors of such institutions, considerable knowledge of their functioning. We hope that the Reserve Bank will take steps to pool its knowledge of the working of the existing Corporations at the Centre and in the States and evolve standard rules for the proper conduct of business by these organisations.

189. Apart from the agencies which we have examined in the preceding paragraphs, there are few other specific sources of long-term finance for the small industries. As we have already observed, commercial banks have to be circumspect in committing their resources to long-term investment ; and even with the adjustments which we have suggested in Chapter VI, they may be able to cater to some extent for the needs of large and well-established industries only. It does not seem likely that they can directly contribute appreciably to the supply of long-term finance to small industries. In certain parts of the country, small and medium-scale industries have depended in some measure on long-term deposits from the public. We are informed that this is a considerable source of finance for industries in the Bombay-Deccan area. Such deposits can, in our view, be of some help in obtaining medium-term finance ; but the industries may have to pay pretty high rates of interest on such deposits. While public deposits may thus be useful for supplementing the resources of small-scale industries, they cannot be a source on which small-scale industries can rely to any great extent for their long-term requirements. Nor can the needs of small-scale industries be met fully by State Governments directly or through public corporations set up for the purpose. In these circumstances, they will inevitably be driven to borrow from the unorganised sector of traders and private moneylenders. With proper integration of these lenders with the organised credit structure, some rationalisation in rates of interest and the terms on which loans are obtained may be effected. But until that happens, the small-scale industries will be at their mercy.

190. In view of this we feel that additional measures for financing small industries are necessary and we recommend that a Special Development Corporation for small industries should be constituted immediately. This Corporation should not be owned wholly or partly by Governments and should function on strictly business-like lines. The set-up of the Corporation should, in our view, be on the lines described below :

(*i*) The Special Development Corporation for small industries should have an initial share capital of Rs. 5 crores, a part of which should be found by the Reserve Bank and a part by joint stock banks, insurance companies and private subscribers. The share capital of the Corporation

should not be guaranteed by any Government; concurrently no ceiling should be fixed by law on the dividends payable by the Corporation to the shareholders.

(*ii*) The Central and State Governments should together provide the Corporation with Rs. 10 crores in the form of an interest-free loan for a minimum period of 15 years. At the end of the period, the subject may be reviewed by the Governments concerned, for continuation of the loan or for amendments of conditions under which the loan is granted. This interest-free loan should have only a last charge on the assets of the Corporation. That is to say vis-a-vis the paid-up capital, Government loan should form what is known as 'junior stock'.

(*iii*) The Corporation should transfer from year to year the following percentages of its distributable profits to a reserve fund :

15 per cent in the first year,

25 per cent in the second year,

35 per cent in the third year,

40 per cent in the fourth year, and

50 per cent from the fifth year onwards

until the reserve fund equals the paid-up capital of the Corporation. After that position has been reached, the board of management should allocate to the reserve fund such portion of the distributable profits as appears appropriate in its judgement, with a view to enabling the Corporation to meet the ultimate liability of the interest-free loan given by Governments.

(*iv*) Members of the initial board of directors of the Corporation, excluding Government nominees, should be nominated by the Reserve Bank, taking into consideration the need for proper representation of the interests involved, such as banks, insurance companies and private subscribers. On the board of directors there should be one director representing the Reserve Bank; Government of India should nominate two members one on their own behalf and one to represent the interests of State Governments. The board of directors should at any time have not less than 7 and not more than 12 members. The initial managerial personnel should be selected by the Reserve Bank.

(*v*) In regard to actual transactions, the Corporation should have complete freedom of action. It should be open to the Corporation to do, amongst other things, the following types of business :

(*a*) investment in equity capital of industrial concerns;

(*b*) purchase of preference shares and debentures;

(*c*) granting of long-term loans on such security as the board may decide;

(*d*) guaranteeing of loans given to small industries by commercial banks :

(*e*) underwriting of issues ; and

(*f*) joint lending with other suitable agencies or with Governments for purposes of industrial development in the private sector.

(*vi*) As regards the rates of interest and other terms attached to loans, as well as commission for underwriting etc., the management should not be tied down by rigid rules, but should be free to decide the terms appropriate to each loan transaction, taking into account the period of the loan, the type of security offered, the general prospects of the industry concerned, etc.

191. We have indicated here only the broad features of the Corporation, in the setting up of which the Reserve Bank of India should take the initiative and work out, in collaboration with the other interests, the actual details of its working. We believe that the Corporation organised on these lines will be able to provide financial assistance to the small industries more speedily and in a larger measure than is possible for the existing institutions. It should be one of the functions of this Corporation through a separate and specialised department to take a lead in organising these industries and rendering assistance in the matter of co-operative or joint purchase of raw materials, standardisation of products, organised marketing, distribution and publicity. Through this department, it should also make available technical services and managerial advice, if possible through training centres. It should also provide a common forum for discussion of problems affecting these industries, pooling of knowledge, exchange of information and conduct of research studies on problems of common interest. It is envisaged that in order to make its assistance available to small industries all over the country more effectively, it will function through regional branches, which will have the added advantage of intimate knowledge of local conditions.

192. The Committee had some opportunity of studying the working of the Industrial and Commercial Finance Corporation Ltd. (I. C. F. C.), which has been specially established in the U. K. to cater for the needs of smaller industries. Apart from the capital contributed by the Bank of England and other banks in the country, arrangements have been made between the I. C. F. C. and banks by which working capital as needed by the I. C. F. C. is being made available at rates of interest mutually agreed between the parties. The I. C. F. C. in its actual operations is entirely free to render assistance to small industries in any form or manner appropriate to the needs of such industries and in some cases, even unsecured loans have been given, where the I. C. F. C. is satisfied that such assistance is justified. The Committee feels that in the working of the Special Corporation suggested by it, the spirit in which both banks have been supporting the I. C. F. C. and the I. C. F. C. has been carrying out its functions could be followed with advantage.

193. There are, in our view, several considerations which justify the granting of an interest-free loan by Governments to such a Corporation. In the first place, the Corporation will have considerable initial expenses and will have to make arrangements for tendering, along with financial assistance, technical and managerial advice also. Secondly, the Corporation will have necessarily to provide for bad and doubtful debts, which may form a higher proportion of total advances than in the institutions financing large-scale industries only. Thirdly, since a large number of firms in the field in which the Corporation will operate are not organised as public limited companies, the major function in the initial stages, at any rate, will be direct lending rather than through debentures that can be placed on the market or underwriting of issues. This will mean that the rate at which the working capital will revolve will be rather slow. And, fourthly, the success of the Corporation will depend on its being able to provide financial accommodation at rates much lower than those charged by the present lenders to small-scale industries. If the Corporation itself has to pay a high rate of interest on the amounts it borrows, it will not be able to advance loans at comparatively low rates of interest. All these considerations justify, in our opinion, the interest-free loan from Government which we have proposed. The magnitude of the problem of rejuvenating small industries in the country is undoubtedly large and there is ample room for a Corporation of the sort we have suggested to function without impinging on the activities of other public or private agencies. We earnestly hope that the Central and State Governments and the Reserve Bank of India will take up the matter immediately and establish an institution for financing small industries on the lines indicated above.

194. The financial difficulties of small-scale industries are accentuated by organisational weaknesses in regard to the marketing of products and purchase of raw materials and by poor managerial and technical know-how. The marketing difficulties arise partly from the fact that the products manufactured by them are diversified and cater for limited markets. Also, goods produced by them are often not standardised and are on a job work basis. Because of these characteristics of their products, the raw materials which they have to use are also diverse, and have to be purchased in small quantities. These technical peculiarities have their repercussions on finance inasmuch as commercial banks hesitate to accept their products as adequate security for advances ; and as regards raw materials, the quantities purchased by small industries and held in stock by them are too small to be pledged or hypothecated to banks for purposes of obtaining working capital. In consequence of these features, small industries have to depend on traders who supply raw materials on credit or buy up their finished products for resale ; or on indigenous moneylenders whose lending policy is flexible. These difficulties can be obviated only if agencies are set up for organising the marketing of products and the purchase of raw materials required by specific types of industries. Such

organisations could not only deal with organised credit institutions more conveniently but also undertake the tasks of advertisement and propaganda for promoting sales.

195. Some effort has been made by State Governments to help small industries to overcome these difficulties through the formation of industrial co-operatives. According to the information available, there were in 1951-52 over 7,600 primary industrial co-operative societies functioning in Part "A" States, Part "B" States and Ajmer and Delhi. As may be observed from Appendix XVII, the majority of these societies are weavers' societies. But there are also societies catering for such industries as oil pressing, tanning and leatherwork, coir and rope making, smithy and carpentry, metal-ware, pottery and salt. The main functions of these primary societies are (*a*) to purchase raw materials and appliances and retail them for cash or credit to members, (*b*) to raise money for the industry by the issue of shares, and by borrowing in the form of deposits or otherwise, (*c*) to convert the raw material into finished products and sell them to the best advantage of members, (*d*) to receive finished products for sale from members and market them on the most favourable terms, and (*e*) to act as agents for the joint purchase of domestic and other requirements of members. The working funds of these societies consist of share capital subscribed by members, deposits, loans and subsidies provided by State Governments, and short-term loans or cash credit accommodation granted by the central co-operative banks. The central financing agencies are financed in their turn by the state co-operative banks. With the amendment of the Reserve Bank of India Act in 1953, state co-operative banks can obtain loans from the Reserve Bank for financing the production and marketing activities of approved cottage and small-scale industries, provided the repayment of the principal and the payment of interest on such loans is guaranteed by the State Government concerned. We have already referred to this facility in an earlier chapter. The industrial co-operative societies have therefore access to the Reserve Bank in the last resort and need not be hampered by lack of finance.

196. Apart from the state co-operative banks, special institutions have been set up at State level to cater for the requirements of industrial co-operatives, such as the State Handloom Weavers' Societies in Madras and Madhya Pradesh and the State Industrial Co-operative Association in Bombay. In view of the special characteristics of the financial requirements of the industrial co-operatives as distinguished from the agricultural credit societies, industrial co-operative banks at district levels have also been organised by the Government of Bombay on an experimental basis in three places and one regional bank has also been set up to cover the needs of a group of three other districts. They are intended to provide both long-term and short-term industrial credit to the co-operatives and their progress is being keenly watched. The part played by State Governments in this field consists of granting or

guaranteeing of loans, provision of direct subsidies, provision of facilities for technical training and research and opening of sales emporia both in the country and outside. Besides these measures taken by State Governments, the Government of India have set up special boards such as the All-India Khadi and Village Industries Board for promoting village industries.

197. These activities undertaken by Governments are highly commendable and deserve support. But since in all these things the emphasis is on co-operative organisation, the initiative taken by the State has to be supported by a desire to co-operate on the part of the small-scale producers themselves. This will be possible only if the small-scale units show a readiness to adopt standardised techniques of production and systematise their activities. In bringing about these adjustments, associations formed by the manufacturers themselves can play an effective role. The Committee feels that not enough initiative has been shown by the small-scale producers to come together and effect improvements in the organisation of production and marketing. It is true that various difficulties exist in the way of establishing such bodies or associations but we feel that these difficulties can be remedied to an appreciable extent, given the desire to work together and improve their position.

CHAPTER X

Special Institutions for Providing Finance to Industries

198. We have so far concentrated on ways and means of enabling the existing institutions to provide short-term and long-term finance to industries with greater facility and in a larger measure than at present. Apart from these, we feel that there is need for trying out various types of specialised institutions, especially for increasing the flow of equity and debenture capital into the industrial sector. The need for such institutions arises from the fact that neither the existing banking system nor institutions like insurance companies and Government sponsored financial corporations can devote as much time and specialised knowledge as is required for sponsoring a variety of new issues on the market and reaching sections of the community which are not ordinarily accessible to them. Also, it will not always be advisable for them individually to undertake the risks that are inherent in, for instance, extensive underwriting of issues of newly established companies. In endeavouring to assist industries, the existing institutions have to bear constantly in mind the need for securing the interests of those who have entrusted their resources to them, such as depositors and holders of insurance policies. Otherwise, the stability and development of these institutions may themselves be endangered.

Need for setting up Special Institutions

199. It is, therefore, prudent to expect that with all the modifications that we have suggested, the existing financial institutions can go only a part of the way in meeting the requirements of industrial finance. For the rest, efforts will have to be made to devise new agencies for attracting capital, particularly long-term capital, into large-scale and small-scale industries. We have already suggested that banks and insurance companies might, under the leadership of the Imperial Bank of India, explore the possibility of forming a consortium to sponsor capital issues. We have also recommended that the Industrial Finance Corporation of India should be enabled to underwrite issues of share or debenture capital, without being subject to the restriction that no part of such sponsored issues may be held by the Corporation for longer than seven years. Further, we have recommended the establishment of a Special Development Corporation for small industries which will, amongst other things, undertake the task of placing on the capital market issues by medium and small-scale industries. The basic objective of these recommendations is that sponsorship by reputable institutions such as the above would add to the confidence of investors and increase the marketability of shares and debentures, attracting thereby new private investors into the field. As industrial expansion gathers momentum new units will come into existence. Also, as the operations of units which are at present organised on a proprietary, partnership or private limited company basis grow in size, the tendency to convert these into

public limited companies will be strengthened and will lead to an increased resort to the capital market for procuring long-term finance. In such a contingency there will be room for several types of agencies for mobilising investible resources and promoting further growth. We shall refer in the following paragraphs to some of the institutions which have been tried in other countries for such purposes and which, in our opinion, could contribute to larger private investment in India.

Issue Houses

200. A major lacuna in the structure of the capital market in India today is the absence of issue or underwriting houses. These institutions, which take over the task of placing share or debenture issues on the market, are a common feature of most of the industrially advanced countries. When the shares or debentures of an industrial concern are underwritten by such houses, the concern benefits in two ways. In the first place, with the added reputation of the issuing house the securities will gain in marketability and appeal to a larger segment of investors. Secondly, the concern will obtain quickly the funds it requires since that portion of securities which is not absorbed by the market at the time of floatation will be taken over by the issue house, to be disposed of over a period of time. In view of these advantages, we feel that the establishment of proper issue houses should be encouraged, even if it involves some diversion of resources currently available for investment into the capital of such institutions. In the past, establishment of issue or underwriting houses was rendered difficult partly by the fact that the policy of the Capital Issues Control was to discourage investment in such institutions. We are informed that there has recently been a change in the policy of Government and that applications to the Controller of Capital Issues for raising funds for financial institutions are also considered. We have also been told that one of the reasons which prompted Government to withhold capital issue sanctions from such institutions was the difficulty of ensuring that the resources at their disposal would be used for *bona fide* issue purposes. We feel, however, that steps could, if necessary, be taken under the Indian Companies Act or other legislative measures governing financial institutions to make sure that the funds raised by issue houses are not diverted for speculative or illegitimate purposes.

201. We might mention, in this connection, a type of institution which has recently been tried in the U. K. and which is, so to speak, a first step towards the building up of sponsoring houses. A firm of private bankers in the U. K., Lazard Brothers and Co. Ltd., have, with the collaboration of some issue houses, formed a subsidiary called Lazard Securities. The main object of this subsidiary is to examine new floatations and recommend the worthwhile ones to its parent and associated companies. According to the information supplied to us, the capital investment in the subsidiary is not large, and it does not itself underwrite or subscribe to new issues. It is, in other words, an advisory

body, which employs experts for examining new issues more thoroughly than would be possible independently for any of the collaborating companies. This would help banks and insurance companies to place their investments with greater security and profit.

Investment Trusts

202. Another type of institution which might help increase investment is the investment trust. Unlike issue houses, whose activity consists of acting as a liaison between genuine borrowers and genuine investors, investment trusts are formed for pooling the savings of private parties and investing them directly in various types of securities. The share capital of the trusts is found out of these resources and invested in securities issued by other concerns. This type of organisation provides added security to the investors, inasmuch as the investment of each of them will, in effect, be spread over a number of scrips and the risk of loss due to a fall in the value of any one of them is minimised. Investment trusts are a common feature of the capital markets of Europe and America, and have in recent years emerged as major institutional savers and investors. However, for successful operation of investment trusts, considerable initial capital will be required. Otherwise, it would be difficult to secure the benefit of a sufficiently widely spread investment portfolio. Consequently, these trusts are best suited to institutions and individuals who can take up shares of fairly high denominations, but who do not desire to operate directly on the securities market. The nature of investment trusts is sufficiently well-known to need further elaboration ; we hope that the relatively large savers in the country will take the initiative in forming such bodies.

Unit Trusts

203. A variant of the investment trust which has certain special advantages for the small investor is the unit trust. The essential principle of a unit trust is the purchase of a block of specified shares and securities by a management company which resells to the public titles to ownership of identical fractions in this block, which are known as units or sub-units. The units entitle the holder to an appropriate portion of the profits earned by the trust on its block of investment. If the investor wishes to realise his holding, the managing company is obliged to buy back the unit at a price which bears a relation to the prevailing value of the underlying securities. The underlying block of shares and securities is held in trust by a well-known bank or insurance company, acting as a trustee for the unit or sub-unit holders. The unit trust is administered by the promoting management company for a specified consideration ; and the net income derived from the block of securities is distributed to the unit holders. Such trusts have been organised and have been operating successfully in, e.g., the U. S. A. and the U. K.

204. There are different types of unit trusts in existence in the U. K. In the case of some, the securities covered by a unit or a sub-

unit are fixed by the trust deed and cannot be varied by the management. In these institutions, which are known as 'fixed trusts' all that the management can do is to remove a security from the approved list and distribute the sale-proceeds amongst the unit holders or reinvest the amount in the other securities permitted under the trust deed. Sometimes, in order to enable flexibility in operations, an alternative panel of a limited number of securities is provided in addition to the original block covered by the units ; the management is then empowered to substitute any of the original securities by any of those in the alternative panel if the market conditions are favourable for such a switch. Amongst such flexible trusts, there are some for which the total number of units that may be sold by the management is fixed ; while in the case of others, there is room for the issue of additional units if market conditions permit. If additional units are to be created, a further block of securities has to be created and appropriated to the trust fund. Usually the additional sub-units are created in multiples of 1,000 units ; but before issuing new units, the management company has to acquire the additional block of securities on which the units are based, and entrust this block to the trustees. However, in certain special types of unit trusts known as Cash Fund trusts, the managers can, if there is demand, sell the units first and invest the cash so received in further securities in the permitted list. Various types of arrangements have thus been evolved to enable the operation of unit trusts on a flexible basis.

205. Unit trusts have several advantages. They are eminently suited for catering for the middle and poorer classes, whose individual savings may not be large enough to facilitate direct operations on the stock exchanges. Also, since each unit represents a fraction of a number of securities, the risk undertaken by an investor in a unit is spread over a number of securities and is thus minimised. It is also advantageous inasmuch as the actual operations of buying and selling securities are conducted by the specialised management company on behalf of the unit holders. In view of these advantages, such institutions seem to be particularly suitable in India where in order to increase capital available to industries, small savings have to be drawn into the investment market. It is of course true that in such organisations, neither the trustees nor the unit holders have control over the management company. The management company's remuneration is usually in the form of a lump-sum charge collected from the unit holders, and it has no beneficial interest in the dividends and capital gains accruing from the underlying block of securities. Because of this feature, there is danger of the operations of the management company not being always in the best interest of the unit holders. But the existing legal provisions can, if necessary, be adjusted in order to prevent managerial malpractices in this field, as in other fields. On balance, we feel that unit trusts can be operated with advantage to the investors as well as

to the industries, and that steps should be taken by both the public and private sectors to encourage the formation of such institutions.

206. The awareness in the country of the need for special agencies to finance industries is evident by the proposals to set up two corporations for the purpose. One of these is to be state-owned and state-managed ; and the other, which is expected to start functioning by September 1954, is to be wholly under private ownership and management. The details of the state-sponsored Industrial Development Corporation are not yet available, and it is not yet known when it will actually be constituted. According to the information available to us, it would seem that this Corporation is expected to undertake the promotion of new industrial units in lines which need to be developed in the national interests, and for which private enterprise may not have adequate financial and technical resources. The Corporation would explore possibilities and select schemes to be taken in hand. If private entrepreneurs are forthcoming for the establishment of such units, the Corporation would help them on the technical side as well as through participation in financing the units. Alternatively, the Corporation would itself establish and operate new industrial units. Even in such cases, it is possible that after a certain stage has been reached, the project could be sold to the private sector as a going concern. We are informed that the capital of the Corporation, which would be provided entirely by the Government of India, may be about Rs. 50 crores to start with. Various questions of organisation and procedure are yet to be cleared up. We feel that industrial development in India would benefit substantially if this Corporation starts working in the immediate future. It would lead not only to an increase in investment in industries, but it would also assist in closer functioning of the public and private sectors in the industrial field. We would, therefore, urge the Government of India to expedite the formation of this state-sponsored Corporation.

207. The second major step that has been taken in recent months is the move to establish, with support from the Government of India and the International Bank for Reconstruction and Development, a privately-owned and managed Industrial Development and Finance Corporation. We understand that this project is in the process of finalisation and will start functioning in a few months. This Corporation is expected to have a paid-up share capital of Rs. 5 crores, subscribed wholly by domestic and foreign private investors, with the former holding about 70 per cent of the capital. In addition to the share capital, the working funds of the Corporation will consist of an interest-free deposit for 15 years for Rs. 7½ crores by the Government of India, from out of the Technical Co-operation Administration rupee counterpart funds. Further, the Corporation will, it is expected, be granted a credit line of Rs. 5 crores in the first instance by the World Bank ; this facility may be further extended as the operations of the Corporation expand. The initial working capital of the Corporation will thus

be Rs. 17½ crores. Further, the Corporation is empowered to borrow up to three times the total amount of its paid-up capital plus the Government deposit.

208. This private Corporation is expected to operate with utmost flexibility and undertake, amongst other things, direct lending and investment, underwriting of issues, and provision of technical and managerial aid to the private industrial sector. There will be no direct Government participation in the management of the Corporation, except that Government will appoint one Director on the Board. Basically, this Corporation is intended to cater for the needs of large and medium-scale industries. This new institution should be an extremely valuable addition to the financial agencies in the country, both on account of its very considerable resources and on account of the facility it will offer for the inflow of private capital and technical knowledge from outside the country. We welcome the establishment of this Corporation and we hope that it will secure the full and generous support of all sections of the community and in particular of industrialists, banks and financiers both in the country and abroad.

209. Besides financing agencies, there is, in our opinion, need for establishing various institutions for providing technical and managerial assistance to industries. The assistance provided by such agencies could be in the form of advice on the technical feasibility of specific schemes put forward by private entrepreneurs. It could also be in the form of provision of facilities for training technicians and managerial personnel. The establishment of the various National Laboratories for research and training and the constitution of a development wing in the Ministry of Commerce and Industry of the Government of India are measures that will help in these matters. We also hope that the existing financing institutions such as the Industrial Finance Corporation of India as well as the new Development Corporations that are to be set up will endeavour to provide expert advice on the technical and administrative matters on an increasing scale. We are aware that in the present state of paucity of experts in this country, it may not be practicable to have fully equipped technical wings attached to each of these institutions. However, since this is a matter of common interest to all of them and to their clients, the Committee recommends that a central organisation should be set up, the services of which should be available to all these institutions and the expenses shared between them. Such an organisation should be manned by technical experts, recruited either within the country or from outside, who should be able to render expert advice on all technical aspects. The Committee understands that the difficulty at present in getting highly qualified technical personnel mainly arises out of the inability of Government departments to offer salaries beyond the usual Government grades. It appears, therefore, necessary that this organisation should not be a Government institution, but one in which Government, special financial institutions

and private industries are all jointly concerned. One department of this organisation should be specially concerned both with rendering managerial advice and with training managerial personnel. This organisation should be so set up as to develop in course of time into a co-ordinating centre for all technical and managerial services available in the country and as a clearing house in respect of research problems of common interest. If this organisation is to function effectively, the Committee considers it desirable that it may more appropriately be located in either an industrial or a financial centre.

210. Finance is not the only shortage in this country. Technical knowledge and managerial ability are also in short supply, and their augmentation is as essential for industrial development as savings or finance. In an underdeveloped country like India, with various urgent demands on the limited resources, investments directed towards improving the quality of the human material are likely to be small, for the reason that the returns are neither immediate nor tangible. But when they do accrue to society, they will more than justify the initial investment. We should therefore like to urge with all the emphasis at our command that in the larger interests of the country, all possible effort should be made by both the public and private sectors not only to enable more efficient utilisation of the available technical and managerial personnel, but also to increase its supply quickly and adequately.

211. Throughout its deliberations the Committee has been impressed with the necessity of a reorientation of attitude on the part of all parties concerned. The conditions with which we are confronted today are vastly different from what we have been accustomed to in the past. The country is crying for progress and is impatient of the pace at which progress has been made hitherto. One major obstacle to achieving progress at a quicker pace may be attributed to lack of adjustment in attitudes towards the needs and requirements of the situation in the country. Whether it is a question of simplifying administrative procedures on the part of governmental authorities or whether it is a question of businessmen reconciling themselves to the changed needs of new social concepts, whether it is a question of bankers relaxing their accustomed conservatism to cope with the growing demands made upon them by the rapidly changing economic needs of the country or whether it is the central monetary authority that has to shape its policies to lend its assistance in directions hitherto unexplored to accelerate the onward march of the country's economic development, the Committee believes that unless all elements constituting the economy of the country are willing and prepared to develop a new outlook and shed preconceived ideas, real progress at a quickened pace cannot be attained. The Committee has, in making its recommendations, assumed that if they are accepted, they will be implemented in the spirit outlined above.

CHAPTER XI

Summary of Recommendations

212. (1) The Committee is of the opinion that even if, as contended by the Planning Commission, finance were not a major limiting factor to private industrial investment so far—a veiw which is not substantiated by the data available to the Committee — it will undoubtedly be so in the coming years if present trends in savings and supply of liquid resources continue. (Paragraphs 22—27)

(2) The Committee feels that in the past few years several changes have occurred in the socio-economic climate of this country which tend to discourage and discredit private enterprise. The Committee is of the opinion that unless these inhibiting factors are remedied, mere multiplication or strengthening of agencies supplying finance will not add much to industrial development. (Paragraph 28)

(3) Private investment is being affected adversely by the threat of nationalisation, which persists despite the assurance given by leading members of Government that the statutory powers for nationalisation of undertakings in the private sector will not be used unless compelling reasons arise. The Committee is of the opinion that in respect of large investments in scheduled industries which take time to fructify, it should be possible for Government to give some assurance of immunity from nationalisation, at least for a reasonable period. (Paragraphs 30—32)

(4) The Committee emphasises that private enterprise should not be subjected to unfair competition from Government-owned units in the same industry through grant of special concessions to such units. (Paragraph 33)

(5) The procedural uncertainties and difficulties which arise from the regulative powers assumed by the State have the effect of delaying and retarding private investment. The Committee considers it essential that the work of the several authorities from which licences or sanctions have to be obtained should be co-ordinated and the procedure for obtaining such licences or sanctions should be simplified and rationalised. (Paragraphs 34—37)

(6) The Committee considers it desirable that the technical organisation in Government Ministries should be adequately strengthened so as to provide in course of time the specialised services of these agencies so private parties also in drawing plans for expansion. The attitude of such departments should be to assist applicants in completing the necetsary technical details. (Paragraph 38)

(7) A major factor impeding private investment in India today is the imposition of a variety of additional obligations on employers by legislative measures or by Tribunal Awards in regard to payments to labour employed and conditions of employment. The Committee urges that early steps should be taken to remove the confusions and uncertainties in regard to labour legislations and Awards and to ensure that a rise in the rewards of labour does not run ahead of the increase in the productivity of labour. (Paragraphs 39-44)

(8) The Committee believes that there have also been several weaknesses within the private sector which have tended to make investors shy of subscribing to industrial shares and debentures. The Committee recommends that organised bodies of businessmen and industrialists should make all possible effort to enforce proper codes of conduct and to raise the standards of business management and morality. (Paragraph 52)

(9) The attention of the Committee has been drawn to the fact that Clause 272(*d*) of the proposed Companies Bill would in its present form render the working of banks impossible. The Committee hopes that the Bill will be suitably amended so as to exempt banking companies from the operation of this clause. (Paragraph 53)

(10) In view of the inadequacy of the present organisation concerned with the publication of statistics relating to joint stock companies, the Committee suggests that the Reserve Bank should take up with Government the question of obtaining promptly and systematising the data relating to joint stock companies. (Paragraph 60)

(11) When sanction is given by the Controller of Capital Issues to raise capital for a particular purpose and the company concerned is not able to utilise the money for that purpose due to the non-availability of machinery and other reasons, the capital becomes immobilised; the Committee is of the opinion that in such cases Government should have the power of liquidating the company and returning the capital raised to the shareholders. (Paragraph 60)

(12) Recent developments such as increased production in several fields of economic activity, abatement of inflationary pressures from abroad and deterioration in the employment situation, as well as the need to step up development outlays in both the public and private sectors in order to achieve the planned targets, warrant adjustments on the monetary front. (Paragraphs 76—77)

(13) The Committee feels that in addition to the steps already taken by the Reserve Bank, there are other directions in which the Reserve Bank can give a lead and help commercial banks to undertake their new responsibilities with a greater degree of confidence. The Com-

mittee does not think it advisable for the Reserve Bank to finance directly investment in private industries. But it feels that the Reserve Bank can facilitate larger investment by commercial banks and other financial institutions by suitable adjustment in its loaning and rediscounting practices. (Paragraph 88)

(14) In creating the financial conjuncture in which credit flows easily into preferred lines, the commercial banks and other financial institutions have a vital part to play. In the Committee's view, there are various adjustments in outlook and policy which commercial banks and other institutions can make without jeopardising their stability or restricting their field of operations. (Paragraph 89)

(15) On the question of long-term advances by commercial banks to industries, the Committee is of the opinion that in the general interest of the credit structure of the country, it does not appear desirable to encourage a tendency on the part of banks to lean on the Reserve Bank for providing liquidity against such advances which they may make on their own judgement and initiative. (Paragraph 97)

(16) The Committee recommends that banks should endeavour to increase their investments in the shares and debentures of first class industrial concerns, to make larger advances to approved parties against such shares and debentures and subscribe to a greater extent to the shares and bonds of specialised institutions like the Industrial Finance Corporation of India and the State Financial Corporations. (Paragraph 98)

(17) The leading banks in India, in co-operation with insurance companies, should form a consortium or syndicate under the leadership of the Imperial Bank of India for underwriting or investing in new issues of shares and debentures of industrial companies. To facilitate this, the Imperial Bank of India Act should be suitably amended. (Paragraph 99)

(18) The Committee recommends that the Reserve Bank should treat shares and bonds of the Industrial Finance Corporation of India and State Financial Corporations as on a par with Government securities for advances under Section 17(4)(*a*) of the Reserve Bank of India Act, on such terms regarding margin, etc., as the Reserve Bank may deem appropriate. In order to ensure the marketability of these shares, the statutory restrictions on the holdings of such shares should be removed. (Paragraph 100)

(19) In view of the steep rise in the operating costs of banks in recent years as a result of the Awards given by various Industrial Tribunals, the Committee recommends that the Government of India should immediately appoint an Expert Committee to examine, among other

things, ways and means of rationalising the wage and salary structure in the banking sector and to explore possible avenues of reducing the burden of operating costs to banks. (Paragraphs 103—108)

(20) The Central and the State Governments should prepare, in consultation with the Reserve Bank of India, an approved list of banks which may be authorised to receive deposits of local bodies or quasi-Government bodies and furnish guarantees and indemnities to Government departments on behalf of customers up to specified limits. (Paragraph 110)

(21) In the opinion of the Committee, the types of inquisitorial inquiries that are being made at present from banks by the Income-tax and Sales tax departments of Governments, if persisted in, could only retard the development of banking, as quite apart from the question of taxation, the general public in India are highly sensitive in regard to the secrecy of their financial transactions, including transactions with banks. (Paragraph 111)

(22) Having regard to the peculiar difficulties of the smaller banks, the Committee suggests for the consideration of the Reserve Bank of India whether any of the directives or criteria laid down by the Bank could be suitably relaxed, without prejudice to sound banking principles, in view of the special characteristics of the smaller banks such as their deposit structure, and other local conditions. (Paragraph 113)

(23) The Committee recommends that facilities under the Bill Market Scheme should be made available to all scheduled banks with deposits of Rs. 1 crore or over. Further, the individual minimum amount for bills should be reduced from Rs. 1 lakh to Rs. 50,000 and for parcels of bills from Rs. 25 lakhs to Rs. 10 lakhs. Limits for various banks should be fixed by the Reserve Bank in advance of the busy season and, for this purpose, the banks wishing to avail themselves of the scheme should apply to the Reserve Bank for limits in anticipation of the business they expect to handle in the season. (Paragraphs 114—117)

(24) The timing of Central and State Governments' loan issues should normally be so arranged that the money markets are not subjected to an additional strain when banks are expected to meet the requirements of trade and industry during the busy season. (Paragraph 118)

(25) The Committee feels that on the analogy of the Bill Market Scheme it may be possible to explore ways and means of increasing the resources of banks for the provision of medium-term finance by the Reserve Bank through similar facilities under proper safeguards. The Reserve Bank may, therefore, examine such possibilities, including if necessary, suitable amendments to the Reserve Bank of India Act. (Paragraph 119)

(26) The Committee considers that it is of the utmost importance that the existing Remittance Facilities Scheme formulated by the Reserve Bank should be further liberalised and accordingly recommends as follows :

(*i*) The Reserve Bank of India should explore the question of instituting, at an early date, a teleprinter service between its offices and the expansion of this service to agencies, where practicable.

(*ii*) The Reserve Bank should take up with the Ministry of Communications the question of instituting a special class of telegram of a priority higher than that of the "Express" telegram but lower than that of the "Important" telegram, for bank remittances between the Reserve Bank and its agencies.

(*iii*) The Remittance Facilities Scheme of the Reserve Bank should be enlarged so as to provide free remittance facilities to banks from their head offices to their branches and *vice versa*, every working day ; in view of the immediate practical difficulties of attaining this target, however, this facility should, to start with, be provided at least twice a week, from the agencies of the Reserve Bank, and, as soon as possible, from the treasury agencies.

(*iv*) The Reserve Bank of India should formulate a scheme under which the Bank's offices and agencies should purchase telegraphic transfers from branches of banks on their head offices up to suitable limits fixed for each branch of a bank at a cost not exceeding 1/64 per cent. The banks may be asked to deposit up to 5 per cent of their deposits by way of general cover. If, in any particular case, depending upon actual experience of buying telegraphic transfers, this cover is not found sufficient, the Reserve Bank may ask for larger cover. As the actual limits sanctioned as also the drawings may exceed the loanable value of the securities, the Reserve Bank should consider whether it is necessary to amend its Act for the purpose.

(*v*) A Committee consisting of three representatives of the banks and one representative each of the Reserve Bank and the Imperial Bank should be formed to deal with the practical difficulties experienced by banks in regard to the Remittance Facilities Scheme and help resolve them. (Paragraph 126)

(27) The Committee is of the opinion that Section 17 (13) of the Reserve Bank of India Act should be amended to authorise the Reserve Bank to open accounts with Indian banks operating outside India. (Paragraph 129)

(28) The Committee recommends that the Reserve Bank of India should, in consultation with the Government of India, work out a detailed scheme of financial assistance to licensed scheduled banks opening branches in accordance with an expansion programme submitted by the banks and approved by the Reserve Bank. The assistance may for instance take the form of a lump-sum to cover part of the initial expenses

of the branch and a commission in respect of deposits collected over a prescribed minimum. The Reserve Bank may also consider the desirability of not allowing more than one banking office to be opened in an undeveloped area for a limited period, say, up to five years. (Paragraph 131)

(29) The State Governments should make adequate security arrangements for banks in mofussil areas, where considered necessary. (Paragraph 132)

(30) Mobile banks have useful potentialities in developing the banking habit and should therefore be encouraged and supported. (Paragraph 133)

(31) The Committee feels that a deposit insurance scheme similar to that obtaining in the U. S. A. merits further examination by banks and recommends that it should be adopted, if, after detailed examination, there is consensus of opinion amongst banks in the matter. (Paragraph 135)

(32) The Reserve Bank of India should examine the question of making the drawing of cheques without sufficient funds a criminal offence. The Committee further advises that the banks, on their own, should develop the practice of closing accounts on which cheques are so drawn. (Paragraph 136)

(33) The Committee strongly recommends that an All-India Association of banks should be brought into being at the earliest possible moment for protecting the interests of bankers and reaching agreements on matters of common interest. (Paragraph 137)

(34) The Committee recommends that the question of linking indigenous bankers and shroffs directly with the Reserve Bank should be actively pursued by the Bank in consultation with the shroffs. (Paragraph 146)

(35) Meanwhile, the Committee suggests that those shroffs who are doing their business by way of sight hundis should consider the possibility of introducing 90 days hundis where practicable. To encourage the use of usance hundis on a large scale, the Committee recommends that the Government of India should consider the question of further reducing the rates of stamp duty on such hundis. (Paragraph 146)

(36) Pending direct linking of indigenous bankers with the Reserve Bank, steps should be taken to encourage the rediscounting by the Reserve Bank of the usance bills of indigenous bankers such as the Shikarpuri shroffs, through scheduled banks. If there are any legal difficulties in the way, the Reserve Bank may take necessary steps to have the Reserve Bank of India Act suitably amended. (Paragraph 147)

(37) The Committee recommends that commercial banks should consider the rediscounting of bills, drawn by traders and small industrialists and endorsed by shroffs, even in places where the banks do not have their offices, provided that the banks are satisfied regarding the standing of the parties. (Paragraph 148)

(38) The Committee suggests that the shroffs should maintain proper books of accounts, preferably in the national language or English. Further, an Association representing shroffs all over India should be formed, the constitution of which should be subject to the approval of the Reserve Bank. (Paragraph 149)

(39) Since shroffs are engaged mainly in lending to trade and industry, they should be exempted from the purview of moneylending legislation. (Paragraph 150)

(40) To enable insurance companies to invest a larger proportion of their funds in industrial shares and debentures, it is recommended that Section 27 of the Insurance Act may be amended so as to require the companies to invest their funds as under ; 25 per cent in Government securities, 20 per cent in Government securities or other approved securities and the balance of 55 per cent in other investments specified in Section 27A. (Paragraph 158)

(41) The Committee is of the opinion that the restrictions contained in sub-sections (3) and (4) of Section 27A considerably restrict the investment activities of insurance companies and recommends that the limits of 2½ per cent referred to in sub-sections (3) and (4) of Section 27A and of 2 per cent prescribed in the former sub-section be raised to 5 per cent. (Paragraph 159)

(42) The Committee recommends that Government should examine, in consultation with insurance interests, the various anomalies in the Insurance Act, with a view to removing them. (Paragraph 160)

(43) In order to make the Industrial Finance Corporation of India a more useful instrument for the provision of industrial finance, the Committee recommends that where the Corporation is satisfied that the managing agent has a reasonable financial stake in the company to which a loan is granted, and is also regarded as eligible in other ways, the additional guarantee of the managing agent need not be insisted upon. (Paragraph 163)

(44) While the Committee is satisfied that the complaint against the Corporation in regard to charging high rates of interest on loans is not, in general, valid, it feels that, where possible, the Corporation should try to reach a workable arrangement with the borrowing company by which the rate of interest on loans granted by the Corporation should be reduced on the condition that the assisted company compensates the

Corporation when it reaches a profitable stage, by repaying to the Corporation the difference between the reduced rate and the Corporation's usual lending rate. (Paragraph 164)

(45) In order to promote better mobilisation of capital, the Industrial Finance Corporation of India should endeavour to give loans in the form of debentures which can, at suitable times, be gradually placed in the market. (Paragraph 165)

(46) Under Section 23 of the Industrial Finance Corporation Act, the Corporation has to dispose of any shares it may have to take up in fulfilment of underwriting liabilities within a period of seven years. The Committee is of the opinion that this limitation should be removed. The Committee also feels that the Corporation should explore the possibility of reaching arrangements with borrowing companies by which the Corporation may retain the option of converting the whole or part of the loan granted by it, at stated periods, on such terms as may be mutually agreed upon, into equity capital. (Paragraph 166)

(47) The Committee recommends that the Industrial Finance Corporation of India and the State Financial Corporations should give banks an opportunity to participate in the loans sanctioned by them. The Corporations should also examine the question of guaranteeing the long-term loan advanced by scheduled banks or insurance companies. (Paragraph 168)

(48) The limit of Rs. 1 crore prescribed in Section 24 of the Industrial Finance Corporation Act for advances to any single concern should be relaxed in the case of key industries. (Paragraph 169)

(49) The Committee feels that if suitable conventions could be established in India as in Great Britain, according to which Parliament does not intervene in the day-to-day working of Finance Corporations but only debates important matters of policy, it will assist considerably in increasing the usefulness of such Corporations and inspiring greater confidence in them without, at the same time, detracting from over-all Parliamentary control. (Paragraph 171)

(50) The Committee is satisfied that genuine hardship is caused to small industries on account of delay in payments by Governments and Government agencies against goods supplied to them. The Committee, therefore, recommends that the Central and State Governments should explore the possibility of opening letters of credit in favour of suppliers stipulating for payments on the presentation of inspection notes by a duly authorised officer of the indenting department. (Paragraphs 176-177)

(51) The Committee feels that if the registration fee on hypothecation bonds of proprietary firms and partnerships registered with the Registrar of Assurances, which is payable on an *ad valorem* basis at present

could be reduced to Rs. 5, it would facilitate the grant of loans to such concerns by commercial banks. (Paragraph 178)

(52) The Committee is of the opinion that in order to render effective help to small industries under State Aid Acts or Rules, larger provisions should be made in the budgets of Governments. (Paragraph 180)

(53) The Committee feels that procedural difficulties have tended to make the State Aid to Industries Acts much less useful than they might have been and, therefore, recommends that every effort should be made by Governments to simplify the procedure as much as possible. (Paragraph 181)

(54) The Committee considers it essential that proposals for establishing State Financial Corporations must have the approval of the Reserve Bank of India, which should carefully examine the scope for such an institution in the State concerned. (Paragraph 184)

(55) The Committee recommends that the Government of India should take steps to amend the State financial corporations Act, 1951, in a manner that will permit joint working of a fiinancial corporation by two or more adjoining States. (Paragraph 185)

(56) The Committee recommends that initially the personnel responsible for managing the affairs of State financial corporations should be selected in consultation with the Reserve Bank of India. (Paragraph 186)

(57) The Committee hopes that the Reserve Bank will pool its knowledge of the working of the existing financial corporations and evolve standard rules for the proper conduct of business by these organisations. (Paragraph 188)

(58) The Committee recommends that in order to augment the finance available to small industries, a Special Development Corporation for small industries should be constituted immediately. In the setting up of this Corporation, the broad features of which are described in the report, the Reserve Bank of India should take the initiative and work out, in collaboration with the other interests concerned, the actual details of its working. (Paragraphs 190—191)

(59) The Committee recommends that the proposed Special Development Corporation for small industries should, through a separate and specialised department, take a lead in organising the small industries and rendering assistance in the matter of co-operative or joint purchase of raw materials, standardisation of products, organised marketing, distribution and publicity. Through this department, it should also make available technical services and managerial advice, if possible, through training centres. (Paragraph 191)

(60) The measures taken by State Governments to help small industries through formation of industrial co-operatives, are in the opinion of the Committee commendable and deserve support. The Committee feels that small-scale producers should also make increasing efforts to come together and effect improvements in the organisation of production and marketing. (Paragraphs 195—197)

(61) The Committee feels that the establishment of proper issue houses should be encouraged in order to facilitate the raising of fresh capital through floatations on the capital market. (Paragraph 200)

(62) The Committee is of the opinion that industrial investment can be assisted through the formation of investment trusts and unit trusts. The Committee feels that unit trusts in particular would be eminently suitable to conditions in India and that steps should be taken by both the public and the private sectors to encourage the formation of such institutions. (Paragraphs 202—205)

(63) In regard to the proposal to set up an Industrial Development Corporation, owned and managed by the Government of India, the Committee feels that such an institution could assist industrial development in several ways and, therefore, urges the Government of India to expedite the formation of this State-sponsored Corporation. (Paragraph 206)

(64) The Committee welcomes the steps that have been taken recently to establish, with support from Government of India and the International Bank for Reconstruction and Development, a privately-owned and managed Industrial Development and Finance Corporation. The Committee hopes that this private Corporation will secure the full and generous support of all sections of the community and in particular of industrialists, banks and financiers both in the country and abroad. (Paragraphs 207—208)

(65) The Committee recommends that a central organisation for the provision of technical and managerial assistance to industries should be set up jointly by Government, special financial institutions like the Industrial Finance Corporation of India, the privately-owned Industrial Development and Finance Corporation etc., and private industries. (Paragraph 209)

(66) The Committee has in making its recommendations assumed that if they are accepted they will be implemented in a spirit of helpfulness and with the utmost desire to accelerate the country's economic development. (Paragraph 211)

213. The Committee will be failing in its duty if it did not refer to the very valuable work of the Joint Secretaries, Shri M. S. Nadkarni and Dr. K. S. Krishnaswamy. At all stages of its deliberations, the

Committee received considerable assistance from them, in the shape of comprehensive knowledge of the various matters within the purview of the Committee, in reflecting the views of the various witnesses and in the preparation of our report. The Committee wishes to convey its thanks to the Joint Secretaries, to Shri R. S. Rajan who was Superintendent of the office of the Committee and to other members of the staff all of whom worked very hard to enable the Committee to complete its arduous task in such a short time.

A. D. SHROFF
CHAIRMAN

J. V. JOSHI
MEMBER

C. W. MIDDLETON
MEMBER

B. T. THAKUR
MEMBER

V. R. SONALKER
MEMBER

B. K. DUTT
MEMBER

M. S. NADKARNI

K. S. KRISHNASWAMY
JOINT SECRETARIES

BOMBAY,
DATED THE 23RD APRIL 1954.

Shri S. Anantharamakrishnan, a Member of the Committee, could not attend the last meeting of the Committee in Bombay when the report was finalised. He has, therefore, not been able to sign the report.

APPENDICES

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APPENDIX I

(*Reference Paragraph 4*)

List of Points Drawn up for Discussion by the Committee

POINTS FOR DISCUSSION WITH THE PLANNING COMMISSION

I. (i) Have the Planning Commission any estimate of investment in large-scale industries in the past years?

(ii) Were any investment targets specified for the first two years of the Plan? Has there been a shortfall in actual investment, and, if so, have they any estimate of the extent of the shortfall or the fields in which such shortfall has occurred?

(iii) How far can the shortfall, if any, be attributed to lack of finance?

II. (i) How have the Five Year targets of investments been calculated? Do they represent (a) what needs to be done at a minimum or (b) what the industries themselves believe that they can do or (c) what would be necessary to utilise increased output of raw materials, etc.?

(ii) What are the bases for the estimate of resources available to private sector?

(iii) In these estimates, they consider banks as a source of 'short-term' finance. Does it mean that long-term finance would be outside the purview of banks?

(iv) What are the 'other sources of short-term finance' they have taken into account? How much of additional working capital are these sources expected to provide?

(v) Do they consider the present level of bank advances to industries unduly low? Is it attributable to the banks' unwillingness or inability to lend?

(vi) Do they have any view on how banks can be enabled to enlarge their industrial advances?

III. (i) On page 38 of the Planning Commission's Report, it is said that in a planned economy, the Central Bank should "take on a direct and active role" in creating the machinery needed to finance development and in directing the flow of finance. Do they have any specific views on how this can be done by the Reserve Bank? In particular, do they envisage Reserve Bank participation in the supply of medium and long-term credit? If so, how is it to be arranged?

(ii) "The proper discharge of its functions by the banking system will necessitate its operation more and more in the light of priorities of development indicated in the Plan and less and less in terms of returns on capital" (p. 39 of the P. C. Report). What is the incentive, other than the return on capital, that can be offered to banks?

IV. (i) On the general question of savings in the economy, do they expect "public savings" and voluntary private savings to rise sufficiently to attain the investment targets specified in the Plan with some deficit financing?

(ii) Apart from 'deficit financing' in the public sector, do they envisage credit expansion as a means of forcing savings?

V. (i) Have the Planning Commission any estimates of the financial needs of small-scale industries? How are these to be met? Do they think that the proposed State Financial Corporations will be able to take care of this?

(ii) Have they any views on the policy to be followed by the Industrial Finance Corporation of India in providing long-term capital for industries?

(iii) In respect of the proposed Industrial Development Corporation, what are the views of the Planning Commission?

VI. Have the Planning Commission examined the financial implications of State trading on the total available finance both for short and long-term requirements of industries?

VII. Do not the Planning Commission think that a suitable economic climate should be created in the country in order to ensure the proper implementation of the Plan, *e.g.*, by removing bottlenecks in trade and industry such as lack of adequate transport and by desisting from statements relating to nationalisation of industries, etc.?

Points for Discussion with Industrial Interests

I. *Financial Requirements:*

A. (i) Annual investment necessary to keep existing fixed assets in efficient condition.

(ii) Additional investment necessary to reach targets of installed capacity specified under the Plan.

B. (i) Working Capital requirements with

(a) present installed capacity;
(b) anticipated additions to installed capacity.

(ii) Finance required for marketing, advertisement, etc.

II. *Sources for A:*

(i) Industries' own resources (*i.e.*, undistributed profits available for replacement or augmentation of fixed assets; refund of E. P. T. deposits, etc.).

(ii) Resources obtained through floatation of new issues (shares, debentures, etc.).

(iii) Industrial Finance Corporations.

(iv) Banks and other financial institutions.

(v) Other sources (loans and grants by Governments, local deposits, investment from abroad, etc.)

III. *Sources for B:*

(i) Own resources.

(ii) Organised banking sector.

(iii) Trade interests.

(iv) Other sources, including advances from Managing Agents.

IV. *Conditions under which finance is available* :

(i) Rates of interest.

(ii) Securities required, including the condition of two signatures.

(iii) Duration of loans.

(iv) Procedural requirements (e.g., sanction from Capital Issues Control, registration, etc.).

V. *Miscellaneous matters* :

Provision for tax and dividend liabilities, provident fund contributions, etc.

VI. Is there any machinery at present which makes possible co-operation amongst banks to handle larger investment and lending propositions collectively in a larger measure than they can do individually ?

POINTS FOR DISCUSSION WITH BANKING INTERESTS

I. General views regarding the advisability of banks participating in provision of finance to industries :

(a) Short-term,
(b) medium-term, and
(c) long-term.

II. Present level of banks' investment in large-scale industries :

(a) Investments in shares, debentures, etc.
(b) Investments in working capital.

III. Is the demand for industrial advances more than the banks can satisfy ? Or is there a paucity of borrowers ? Reasons.

IV. What are the conditions under which the banks are at present lending to industries ? (That is to say, the rates of interest they charge, security required, etc.)

V. Are bank advances confined to some industries only ? Is this due to any special feature of banking or of industries in India ?

VI. Assuming there is an increase in demand for finance by industries, are any special measures necessary to enable the banks to lend ?

VII. Would the supply of credit be enhanced and rendered easier if special institutions, such as Industrial Development Corporations, Industrial Finance Corporations, Investment Trusts, etc., are created ? That is to say, would banks prefer to lend through such institutions rather than directly to industries ?

VIII. Are there any special measures which the Reserve Bank could take in this context ?

IX. What, in general, are the conditions necessary for enlarging supply of bank credit to industries as indicated in the Plan ? Is there any need for starting specialised banking for industrial purposes ?

X. Bankers' views in general regarding the implications of State trading on the total finance available for the private sector.

XI. Has labour legislation led to increased costs of operating banks and retarded the development of banking in undeveloped areas ?

XII. Have the banks any suggestions to make which would enable them to open branches in undeveloped areas ?

XIII. Has there been over-concentration of banking facilities in urban areas ?

XIV. Have the banks any suggestions to make for augmenting bank deposits even in areas where banking facilities are freely available ?

XV. Are the banks satisfied that the present policy of the Reserve Bank in granting permission to open branches has led to the uneconomic working of branches in underdeveloped areas ?

XVI. Is it possible to reduce the present ratio of the banks' cash to deposits ?

XVII. Do you think that the restrictions placed under the Banking Companies Act and the requirements the scheduled banks have to comply with under the Reserve Bank of India Act, retarded the development of banking in India, particularly by increasing the cost of bank operations and narrowing the credit base ?

XVIII. Are the remittance facilities available at present handicapping banks in the maintenance of the minimum necessary cash balances ? What measures would you suggest to remedy the situation ?

XIX. Are the present rediscount facilities offered by the Reserve Bank adequate to encourage the scheduled banks to extend the scope of their lending and investment policies consistent with the maintenance of their liquidity ?

Points for Discussion with the Industrial Finance Corporation of India

I. The present position regarding the resources of the Corporation. Are the resources available to the Corporation considered adequate to meet the demands made on it by large-scale industries ?

II. Detailed information regarding the procedure adopted in examining the applications and in making the funds available to the applicants.

III. There has been more or less a downward trend in the number of applications received and in amounts sanctioned in recent years. Are there any reasons for this fall, apart from the change in general economic conditions ?

IV. Do the Corporation envisage underwriting or guaranteeing new issues in the near future ? What are the difficulties which come in the way of such activity at present ?

V. Are the rates of interest charged by the Corporation, conditions regarding insurance of assets, restriction on dividends during the period

of the loan, etc., impinging adversely on utilisation of facilities provided by the Corporation? Is there any scope for revising these conditions so as to make borrowing from the Corporation easier and quicker?

VI. Any points in connection with the Report of the Industrial Finance Corporation Enquiry Committee.

Points for Discussion with Insurance Interests

I. The present restrictions on the investments of insurance companies under Section 27A of the Insurance Act: what relaxation in the present law would you suggest in order to enable the insurance companies to invest larger amounts in industrial shares and debentures?

II. Is there any scope for increasing the total investible resources of insurance companies?

III. Is it advisable for insurance companies to underwrite new issues?

IV. Would the promotion of Investment Trusts help larger industrial investment?

V. Are insurance companies investing in industrial securities to the fullest extent permissible under the Insurance Act? If not, what are the reasons?

Points for Discussion with the Representatives of the Stock Exchange Associations

I. Has the Association any information regarding changes in the turnover on the stock exchanges in recent years? What, in your opinion, are the causes for this decline?

II. What are the criteria adopted at present for listing the shares and/or debentures of joint stock companies on the stock exchange? Would you suggest any changes in these criteria which may benefit the financing of industries?

III. The Planning Commission have estimated that an amount of Rs. 90 crores could be raised by way of new issues in the five year period. Does this represent a fair estimate of the capacity of the market? Is this target, in your opinion, likely to be achieved?

IV. Do you favour the suggestion that the proposed Industrial Development Corporation should guarantee a minimum dividend on the shares of new companies for a specified period?

Points for Discussion with the Controller of Capital Issues

I. General points regarding the scope and operation of Capital Issues Control.

II. Would it be possible with the present machinery to keep track of actual issues and subscriptions corresponding to sanctions? Would data be available on these lines for past years?

III. What is the extent of sanctioned issues not floated during the period specified? Have such sanctions been renewed at the end of the specified period?

IV. In respect of the issues sanctioned by the Capital Issues Control and floated on the market, is there any machinery for ascertaining whether they are being utilised for the specified type of investment?

V. Under present conditions, does the volume of applications warrant the need for quantitative control of aggregate private investment? In other words, would it be correct to say that at present the main function of the Capital Issues Control should be to scrutinise the *nature* of the investment and ensure that it is in accordance with the accepted priorities?

VI. Would it be possible to get a breakdown of capital issues from the past years according to purpose, agencies floating the issues, types of floatations (new issues of shares, bonus shares, debentures, etc.)?

VII. Any other points regarding the procedure implications of the Capital Issues Control.

सत्यमेव जयते

APPENDIX II

(*Reference Paragraph* 4)

Particulars of Meetings and Discussions held by the Committee

Date	Time	Place	Particulars of the engagement
30th Oct. 1953	11 A.M.	Bombay	Meeting of the Committee.
25th Nov. 1953	10 A.M.	New Delhi	Meeting of the Committee.
do.	3 P.M.	do.	Meeting with the representative of the Industrial Finance Corporation of India, New Delhi.
26th Nov. 1953	11 A.M.	do.	Meeting with Prof. V. K. R. V. Rao, Director, The Delhi School of Economics, University of Delhi, Delhi.
			Meeting with Shri E. P. W. Da Costa, Editor, Eastern Economist, New Delhi.
do.	3 P.M.	do.	Meeting of the Committee.
			Meeting with Prof. V. K. R. V. Rao, Director, The Delhi School of Economics, University of Delhi, Delhi.
27th Nov. 1953	10 A.M.	do.	Meeting with Shri Bimal C. Ghose, M.P., Mahanirvan Road, Calcutta.
do.	3 P.M.	do.	Meeting with the representative of the Punjab National Bank Ltd., Delhi.
28th Nov. 1953	10 A.M.	do.	Meeting with the Controller of Capital Issues (Shri D. L. Mazumdar, I.C.S.), Government of India, New Delhi.
			Meeting with Sardar Mohan Singh, 22, Baradari Gardens, Patiala, PEPSU.
30th Nov. 1953	10-30 A.M.	do.	Meeting with the Planning Commission, Government of India, New Delhi.
1st Dec. 1953	10 A.M.	do.	Meeting with Lala Yodh Raj, Hailey Road, New Delhi.
			Meeting with the representatives of the Ministry of Commerce & Industry (Shri H. V. R. Iengar, I.C.S. and Shri S. Bhoothalingam, I.C.S.), Government of India, New Delhi.
do.	3 P.M.	do.	Meeting with Lala Shri Ram, Curzon Road, New Delhi.
15th Dec. 1953	10-30 A.M.	Calcutta	Meeting with the representatives of the Imperial Bank of India.
do.	4 P.M.	do.	Meeting with the representatives of the Bengal National Chamber of Commerce, Mission Row Extension, Calcutta.
16th Dec. 1953	11 A.M.	do.	Meeting with the representatives of the Indian Tea Association (European Interests), Royal Exchange, Calcutta.

Date	Time	Place	Particulars of the engagement
16th Dec. 1953	3 P.M.	Calcutta	Meeting with the representatives of the Indian Chamber of Commerce, Netaji Subhas Road, Calcutta.
17th Dec. 1953	9 A.M.	do.	Meeting with the representatives of the Associated Chambers of Commerce of India, Royal Exchange, Calcutta.
			Meeting with Shri R. M. Mitra, General Manager, Metropolitan Bank Ltd., Calcutta.
			Meeting with Shri D. N. Sen, 7, Rawdon Street, Calcutta.
do.	3 P.M.	do.	Meeting with Mr. J. L. Esplen, Place, Siddons & Gough, Lyons Range, Calcutta.
			Meeting with Shri Padampat Singhania, Kamla Tower, Kanpur.
18th Dec. 1953	9 A.M.		Meeting with the representatives of the Bharat Chamber of Commerce, Burra Bazar, Calcutta.
			Meeting with the representatives of the Calcutta Exchange Banks' Association, C/o the Chartered Bank of India, Australia & China, Calcutta.
			Meeting with the representatives of the Indian Mining Federation, Canning Street, Calcutta.
do.	3 P.M.	do.	Meeting with Shri B. M. Birla, Royal Exchange Place, Calcutta.
			Meeting with the representatives of the Indian Jute Mills Association, Royal Exchange, Calcutta.
19th Dec. 1953	10-30 A.M.	do.	Meeting with the Director of Industries (Dr. S. N. Ganguli), Government of West Bengal, Calcutta.
			Meeting with the representatives of Small-Scale Industries in West Bengal (Federation of Associations of Small & Medium Industries, Mission Row Extension, Calcutta ; Howrah Manufacturers' Association, Belilios Road, Howrah ; and Chamber of Small Industries, Bengal, Canning Street, Calcutta.)
			Meeting with the Finance Secretary (Shri B. Das Gupta, I.A.S.), Government of West Bengal, Calcutta.
do.	3 P.M.	do.	Meeting with the representatives of the Indian Tea Associations (Indian Interests) [(1) Indian Tea Planters' Association, Jalpaiguri ; (2) Assam Tea Planters' Association, Jorhat, Assam ; (3) Surma Valley Indian Tea Planters' Association, Clive Buildings, Calcutta ; (4) Tripura Tea Association, Mangoe Lane, Calcutta ; and (5) Terai Indian Tea Planters'

Date	Time	Place	Particulars of the engagement
			Association, Chandmani Tea Estate, Siliguri.]
			Meeting with the representatives of the Calcutta Stock Exchange Association Ltd., Lyons Range, Calcutta.
21st Dec. 1953	9-30 A.M.	Calcutta	Meeting with the representatives of the United Commercial Bank Ltd., Royal Exchange Place, Calcutta.
			Meeting with the representatives of the United Bank of India Ltd., Clive Ghat Street, Calcutta.
			Meeting (2nd round) with the representatives of the Imperial Bank of India.
do.	3 P.M.	do.	Meeting with the representatives of the Indian Sugar Mills Association, Netaji Subhas Road, Calcutta.
6th Jan. 1954	11 A.M.	Bombay	Meeting with Shri Chunilal B. Mehta, Ridge Road, Malabar Hill, Bombay.
			Meeting with Shri B. Venkatappiah, I.C.S., Executive Director, Reserve Bank of India, Bombay.
do.	4 P.M.	do.	Meeting with Shri J. D. Choksi, C/o Tata Industries Ltd., Bombay House, Bombay.
7th Jan. 1954	11 A.M.	do.	Meeting with Prof. D. R. Gadgil, Director, Gokhale Institute of Politics and Economics, Poona.
do.	4-30 P.M.	do.	Meeting with Shri T. V. Datar, Chief Officer, Department of Banking Operations, Reserve Bank of India, Bombay.
8th Jan. 1954	11 A.M.	do.	Meeting with the representatives os the Indian Life Assurance Officef Association, Fort, Bombay.
			Meeting with the representatives of the Native Share & Stock Brokers' Association, Dalal Street, Fort, Bombay.
do.	3 P.M.	do.	Meeting with the representatives of the Bombay Chamber of Commerce, Ballard Estate, Bombay.
			Meeting with Shri Manilal B. Nanavati, "Leela", Juhu, Bombay.
9th Jan. 1954	11 A.M.	do.	Meeting with the representatives of the Mahratta Chamber of Commerce & Industries, Tilak Road, Poona.
			Meeting with the Director of Industries (Shri D. G. Mulherkar), Government of Bombay, Bombay.
13th Jan. 1954	11 A.M.	do.	Meeting with the representatives of the Deccan Banks' Association, Poona.

Date	Time	Place	Particulars of the engagement
13th Jan. 1954	3-45 P.M.	Bombay	Meeting with Mr. A. C. Clarke, General Manager, The Bank of India Ltd., Bombay.
14th Jan. 1954	10-45 A.M.	do.	Meeting with Shri Kasturbhai Lalbhai, Pankore's Naka, Ahmedabad.
do.	3 P.M.	do.	Meeting with Sir Jeremy Raisman, Deputy Chairman, Lloyds Bank Ltd., London, E. C. 3.
			Meeting with the representatives of the Millowners' Association, Veer Nariman Road, Bombay.
15th Jan. 1954	11 A.M.	do.	Meeting with Shri Tulsidas Kilachand, Apollo Street, Fort, Bombay.
			Meeting with Shri P. J. Chinmulgund, I.C.S., Registrar of Co-operative Societies, Bombay State, Poona.
do.	3 P.M.	do.	Meeting with the representative of the Oriental Government Security Life Assurance Co., Ltd., Fort, Bombay.
			Meeting with the representatives of the New India Assurance Co., Ltd., Fort, Bombay.
16th Jan. 1954	11 A.M.	do.	Meeting with the representatives of the All-India Manufacturers' Organization, Churchgate, Fort, Bombay.
			Meeting with Shri Pranlal Devkaran Nanjee, Chairman, Devkaran Nanjee Banking Co., Ltd., Fort, Bombay.
18th Jan. 1954	11 A.M.	do.	Meeting with the representatives of the Indian Banks Association, Devkaran Nanjee Buildings, Fort, Bombay.
do.	3 P.M.	do.	Meeting with the representatives of the Indian Merchants' Chamber, Indian Merchants' Chamber Building, Fort, Bombay.
19th Jan. 1954	11 A.M.	do.	Meeting with the representatives of the Shikarpuri Shroffs Association Ltd., Kalbadevi Road, Bombay.
			Meeting with the representatives of Small-Scale Industries in Bombay, (Calico Dyeing and Printing Works, Industrial Estates, Parel Chawl Road, Bombay ; and Malleable Iron & Steel Castings Co., Ltd., Mathurdas Mills Compound, Lower Parel, Bombay).
do.	3 P.M.	do.	Meeting with the Finance Secretary (Shri V. T. Dehejia), Government of Bombay, Bombay.
			Meeting with the representatives of the Federation of Electricity Undertakings of India, Home Street, Bombay.
20th Jan. 1954	11 A.M.	do.	Meeting with the representatives of the Bombay Exchange Banks' Association, C/o The Chartered Bank of India, Australia & China, Fort, Bombay.

Date	Time	Place	Particulars of the engagement
21st Jan. 1954	11 A.M.	Bombay	Meeting (2nd round) with the representatives of the Indian Banks Association, Bombay.
22nd Jan. 1954	11 A.M.	do.	Meeting with the representatives of the Federation of Indian Chambers of Commerce and Industry, Ferozshah Road, New Delhi.
do.	3-30 P.M.	do.	Meeting with the representatives of the Bombay Shareholders' Association, Dalal Street, Fort, Bombay.
			Meeting with the representatives of the Bombay Shroffs Association Ltd., Shroff Bazar, Bombay.
27th Jan. 1954	10 A.M.	Bangalore	Meeting with the representatives of the Mysore Chamber of Commerce, Kempegowda Road, Bangalore.
do.	3 P.M.	do.	Meeting with the representatives of the United Planters' Association of Southern India, "Glen View," Coonoor, Nilgiris.
			Meeting with the representative of the Bank of Mysore Ltd., Bangalore.
28th Jan. 1954	10 A.M.	do.	Meeting with the Director of Industries and Commerce (Shri E. V. Ganapathi Iyer),Government ofMysore,Bangalore.
30th Jan. 1954		Mysore ..	Meeting with the representatives of the Multani Shroffs Association, Mysore.
1st Feb. 1954	10 A.M.	Madras	Meeting with the representatives of the Madras Stock Exchange Association Ltd., Linghi Chetty Street, Madras.
			Meeting with the representatives of the Travancore-Cochin Bankers Associaciation, Orient Central Bank Buildings, Kottayam.
do.	3 P.M.	do.	Meeting with the Deputy Director of Industries (Shri V. Dattatreyan), Government of Madras, Madras.
			Meeting with Shri C. R. Srinivasan, "Sun View", Lloyds Road, Madras.
			Meeting with the representatives of the Andhra Chamber of Commerce, Angappa Naick Street, Madras.
2nd Feb. 1954	10 A.M.	do.	Meeting with the representative of the Indian Bank Ltd., Indian Bank Buildings, Madras.
			Meeting with the representative of the Industries, Co-operation and Labour Department (Shri J. M. Lobo Prabhu, I.C.S.), Government of Madras, Madras.

Date	Time	Place	Particulars of the engagement
2nd Feb. 1954	3 P.M.	Madras	Meeting with Shri B.D.V. Ramaswamy Naidu, "Govardhan", Taylor's Road, Kilpauk, Madras.
			Meeting with the representatives of the Southern India Chamber of Commerce, Indian Chamber Buildings, Madras.
			Meeting with the representative of the Madras Industrial Investment Corporation Ltd., Whites Road, Royapettah, Madras.
23rd Feb. 1954	11 A.M.	Bombay	Meeting of the Committee.
do.	3 P.M.	do.	do.
24th Feb. 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.
25th Feb. 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.
26th Feb. 1954	11 A.M.	do.	Meeting with Shri L. R. Bhandari, Manager, Reserve Bank of India, Bombay.
			Meeting with Sarvashri P. J. Jeejeebhoy and T. V. Datar, Dy. Controller of the Exchange Control Department and Chief Officer of the Department of Banking Operations respectively of the Reserve Bank of India, Bombay.
do.	3 P.M.	do.	Meeting of the Committee.
27th Feb. 1954	11 A.M.	do.	do.
1st March 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.
2nd March 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.
3rd March 1954	10 A.M.	do.	do.
do.	3 P.M.	do.	do.
4th March 1954	10 A.M.	do.	do.
do.	2-30 P.M.	do.	do.
6 March 1954	10 A.M.	do.	do.
8th March 1954	10 A.M.	do.	do.
12th April 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.

Date	Time	Place	Particulars of the engagement
13th April 1954	11 A.M.	Bombay.	Meeting of the Committee.
do.	3 P.M.	do.	do.
14th April 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.
15th April 1954	10-15 A.M.	do.	do.
19th April 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.
20th April 1954	3 P.M.	do.	do.
21st April 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.
22nd April 1954	11 A.M.	do.	do.
23rd April 1954	11 A.M.	do.	do.
do.	3 P.M.	do.	do.

APPENDIX III

(Reference Paragraph 4)

List of Individuals and Institutions who submitted memoranda, notes etc., to the Committee

Nos.	Name of the party	Address
1.	Alembic Chemical Works Co., Ltd.	Baroda 3.
2.	The All-India Manufacturers' Organization.	Industrial Assurance Building, Churchgate, Fort, Bombay 1.
3.	Andhra Chamber of Commerce.	Madras—1
4.	Shri Badridas Goenka	Goenka Nivas, 19, Belvedere Road, Calcutta 27.
5.	The Bank of Mysore Ltd.	Post Box No. 37, Bangalore.
6.	Shri S. G. Barve, I.C.S.	C/o Ministry of Finance, Government of India, Department of Economic Affairs, New Delhi.
7.	Bengal National Chamber of Commerce.	P-11, Mission Row Extension, Calcutta.
8.	Bharat Chamber of Commerce.	Imperial Bank Building (Burra Bazar Branch), Calcutta 7.
9.	The Bombay Exchange Banks' Association.	C/o The Chartered Bank of India, Australia & China, Post Box No. 558, Bombay.
10.	The Bombay Shareholders' Association.	Agakhan Building, Dalal Street, Fort, Bombay.
11.	The Bombay Shroffs Association Ltd.	233, Shroff Bazar, Bombay 2.
12.	The Calcutta Exchange Banks' Association.	C/o The Chartered Bank of India, Australia & China, Post Box No. 40, Calcutta 1.

Nos.	Name of the party	Address
13.	The Calcutta Stock Exchange Association Ltd.	7, Lyons Range, Calcutta.
14.	Shri P. J. Chinmulgund, I.C.S.	Registrar of Co-operative Societies, Bombay State, Poona.
15.	Shri Chunilal B. Mehta.	52, Ridge Road, Malabar Hill, Bombay.
16.	A. C. Clarke, Esq.	C/o The Bank of India Ltd., Mahatma Gandhi Road, Fort, Bombay.
17.	The Commerce & Industries Department, Government of Hyderabad.	Hyderabad (Dn.)
18.	The Controller of Capital Issues.	Ministry of Finance, Government of India, New Delhi.
19.	The Controller of Insurance, Government of India.	Kennedy Cottage, Simla 4.
20.	Shri Debes C. Ghose.	Mission Court, P-12 Mission Row Extension, Post Box No. 632, Calcutta.
21.	The Deccan Banks' Association.	C/o Bhor State Bank Ltd., 361/62 Budhwar, Poona 2.
22.	The Department of Banking Operations.	Reserve Bank of India, Central Office, Bombay.
23.	The Department of Research & Statistics.	Reserve Bank of India, Central Office, Bombay.
24.	The Director of Industries & Commerce, Government of Mysore.	Bangalore.
25.	Shri B. K. Dutt.	General Manager, The United Bank of India Ltd., Calcutta.
26.	Employers' Association, Calcutta.	15, Park Street, Calcutta.
27.	Engineering Association of India.	Construction House, Ballard Estate, Bombay.

Nos.	Name of the party	Address
28.	J. L. Esplen, Esq.,	Place, Siddons & Gough, 6, Lyons Range, Calcutta.
29.	The Federation of Associations of Small & Medium Industries.	P-11, Mission Row Extension, Calcutta.
30.	Federation of Electricity Undertakings of India.	Killick Building, Home Street, Bombay.
31.	Federation of Indian Chambers of Commerce & Industry.	28, Ferozshah Road, New Delhi.
32.	The Finance Secretary, Government of West Bengal.	Calcutta.
33.	Prof. D. R. Gadgil.	C/o Gokhale Institute of Politics & Economics, Poona 4.
34.	The Howrah Manufacturers' Association.	198, Belilios Road, Howrah.
35.	Imperial Bank of India.	Central Office, P. O. Box No. 346, Calcutta.
36.	Indian Banks Association.	Devkaran Nanjee Buildings, Elphinstone Circle, Fort, Bombay.
37.	The Indian Bank Ltd.	Indian Bank Buildings, Post Box No. 1284, Madras.
38.	Indian Chamber of Commerce, Calcutta.	23-B, Netaji Subhas Road, Calcutta.
39.	Indian Chamber of Commerce.	Post Box No. 200, Coimbatore (S. India).
40.	The Indian Life Assurance Offices Association.	Industrial Assurance Bldg., Opp. Churchgate Station, Fort, Bombay.
41.	The Indian Merchants' Chamber.	Lalji Naranji Memorial Indian Merchants' Chamber Building, Back Bay Reclamation, Fort, Bombay.
42.	Indian Mining Federation.	135, Canning Street, Calcutta.

Nos.	Name of the party	Address
43.	Indian Sugar Mills Association.	23-B, Netaji Subhas Road, Calcutta.
44.	Indian Tea Association	Post Box No. 280, Royal Exchange, Calcutta.
45.	Indian Tea Planters' Association. (Jalpaiguri)	Office of Hony. Joint Secretary, C/o M/s. S. K. Banerjea & Co., 9, Ezra Street (1st Floor), Calcutta.
46.	The Industrial Finance Corporation of India.	U. S. Hospital Buildings, Keeling Road, New Delhi.
47.	Shri T. D. Kansara.	C/o The Bank of India Ltd., Ahmedabad.
48.	Shri M. L. Kundu.	C/o The Chamber of Small Industries, Bengal, 135 Canning Street, Calcutta.
49.	Shri J. M. Lobo Prabhu, I.C.S.	Secretary, Industries, Co-operation & Labour Department, Government of Madras, Madras.
50.	The Madras Stock Exchange Association Ltd.	322/23, Linghi Chetty Street, G. T. Madras.
51.	Mahratta Chamber of Commerce & Industries.	Mahratta Chamber of Commerce & Industries Building, Tilak Road, Poona 2.
52.	The Millowners' Association.	Elphinstone Building, Veer Nariman Road, Post Box No. 95, Bombay.
53.	Shri R. M. Mitra.	C/o The Metropolitan Bank Ltd., 7, Chowringhee Road, Calcutta.
54.	The Mysore Chamber of Commerce.	Kempegowda Road, Bangalore.
55.	The Native Share and Stock Brokers' Association.	The Stock Exchange, Dalal Street, Fort, Bombay.
56.	New India Assurance Co., Ltd.	Mahatma Gandhi Road, P. O. Box 969, Bombay.

Nos.	Name of the party	Address
57.	The Planning Commission.	Government of India, New Delhi.
58.	Shri Pranlal Devkaran Nanjee.	C/o Devkaran Nanjee Banking Co., Ltd., Devkaran Nanjee Buildings, Elphinstone Circle, Fort, Bombay.
59.	Shri B. N. Puri.	C/o The Punjab National Bank Ltd., Shree Niwas, 8, Underhill Road, Delhi.
60.	Shri Shantilal Mangaldas.	Jehangir Vakil Mills, P. O. Box No. 16, Ahmedabad.
61.	The Shikarpuri Shroffs Association Ltd.	384-M Dhabolkar Wadi, Kalbadevi Road, Bombay 2.
62.	Shri V. R. Sonalker.	Managing Director, The Industrial Finance Corporation of India, New Delhi.
63.	The Southern India Chamber of Commerce.	Indian Chamber Buildings, Madras 1.
64.	The Southern India Millowners' Association.	Coimbatore (S. India).
65.	Tata Industries Ltd.	Bombay House, Bruce Street, Fort, Bombay.
66.	The Travancore-Cochin Bankers Association.	Orient Central Bank Bldgs., Kottayam.
67.	United Bank of India Ltd.	4, Clive Ghat Street, Calcutta.
68.	The United Commercial Bank Ltd.	2, Royal Exchange Place, Calcutta.
69.	United Planters' Association of Southern India.	"Glenview", Coonoor, Nilgiris.
70.	Upper India Chamber of Commerce.	Kanpur.
71.	The Madras Industrial Investment Corporation Ltd.	3 B, Whites Road, Royapettah, Madras.

APPENDIX IV

(*Reference Paragraph* 16)

Expansion Programme in the Private Sector

Industry	Unit	1950-51 Rated Capacity	1950-51 Production	1955-56 Rated Capacity	1955-56 Production	Capital Investment during 1951-56 (Rs. lakhs)
1. Agricultural Machinery :						
(i) Pumps (power-driven centrifugal)	Numbers	33,460	34,310	69,400	80,000 to 85,000	1,20
(ii) Diesel engines	,,	6,320	5,540	39,725	50,000	
2. Aluminium	Tons	4,000	3,677	20,000	12,000	9,00(1)
3. Automobile (manufacturing only) (2)	Numbers	30,000	4,077	30,000	30,000	3,00
4. Ball & Roller Bearing	Numbers '000	600	87	1,200	1,200	5,25*
5. Battery, Dry Cell	,, ,,	285,000	136,500	310,000	320,000	....
6. Battery, Storage	,, ,,	446	200	538	400	....
7. Bicycle	,, ,,	120	101	530	530	....
8. Cement	Tons '000	3,194	2,692 (3)	5,016	4,515	15,40
9. Cotton Textile :						
(i) Yarn	Lbs. million	1,669	1,179	1,722	1,640	9,00
(ii) Cloth (mill-made)	Yds. ,,	4,744	3,718	4,779	4,700	
(iii) Cloth (hand-loom)	,, ,,	3,000(4)	810	3,000	1,700	
10. Electric Cable & Wire A. C. S. R. Cables	Tons	2,500	1,674	5,000	5,000	....
11. Electric Fan	Numbers '000	288	194	360	320 to 350	....

* Capital investment also covers the other light engineering industries listed under Serial Nos. 5-7, 10-14, 17, 19, 31 & 34.
(1) Covers only what is expected to be spent during the period of the Plan.
(2) Based on the programme of the two existing manufacturers.
(3) The actual production includes the output of the factory in the public sector.
(4) The rated capacity of handlooms is based on the number of handlooms in existence at present and availability of yarn at the rate of 20 lbs. per month.

APPENDIX IV—(*contd.*)

Industry	Unit	1950-51 Rated Capacity	1950-51 Production	1955-56 Rated Capacity	1955-56 Production	Capital Investment during 1951-56 (Rs. lakhs)
12. Electric Lamp :						
(i) G. S. L. lamps	Numbers '000	23,000	15,000	32,000	30,000	....
(ii) Miniature lamps	,, ,,	900	N.A.	27,500	16,000	....
13. Electric Motor	H.P. '000	150	99	300	320	....
14. Electric Transformer	KVA '000	370	179	485	450	....
15. Fertiliser :						
(i) Ammonium sulphate	Tons	78,670	46,304	131,270	120,000	2,10
(ii) Super-phosphate	,,	123,460	55,089	192,855	164,000	
16. Glass & Glassware :						
(i) Sheet glass	Tons	11,700	5,850	52,200	26,000	
(ii) Blownware & pressedware	,,	201,550	86,000	237,800	137,500 to 142,500	2,20
(iii) Bangles	,,	35,000	16,000	35,000	16,000	
17. Grinding Wheel	,,	360	231	840	750 to 800	
18. Heavy Chemical :						
(i) Sulphuric acid	Tons '000	150	99	213	192	
(ii) Soda ash	,, ,,	54	45	86	78	7,30
(iii) Caustic soda	,, ,,	19	11	37	33	
19. Hurricane Lantern	Numbers '000	4,260	3,240	4,510	6,000	
20. Iron & Steel :						
(i) Pig iron	Tons '000	1,850	1,572(5)	2,700(6)	1,950	43,00
(ii) Finished steel (main producers only) ..	,, ,,	975	976(5)	1,550(6)	1,280	

(5) Including the output of the Mysore Iron & Steel Works.

(6) The rated capacity will be achieved when the expansion projects are completed i.e., by 1957-58.

N. A.—Not available.

APPENDIX IV—*(contd.)*

Industry	Unit	1950-51 Rated Capacity	1950-51 Production	1955-56 Rated Capacity	1955-56 Production	Capital Investment during 1951-56 (Rs. lakhs)
21. Jute Manufactures	Tons '000	1,200	892	1,200	1,200	..
22. Machine Tool (graded)	Numbers	3,000	1,101(7)	3,000	3,000	20
23. Match	Gross Boxes '000	35,300	29,100	38,300	35,300	50
24. Paints & Varnish (organised industry only):						
(i) Ready-mixed paint, varnish, etc.	Tons' 000	65	29	70	60	50
(ii) Pigment (titanium dioxide)	Tons	..	..	1,800	1,800	
(iii) Nitrocellulose lacquers	Gals. '000	..	..	350	300	
(iv) Aluminium paste and powder	Tons	..	..	750	750	
25. Paper and Board :						
(i) Paper and paper board	Tons '000	137	114(8)	198	188	5,35
(ii) Strawboard and other boards	,, ,,	48	22	58	53	
26. Petroleum Refining (in terms of input of crude oil)	Tons '000	250	..	2,000(8)	..	64,00
(i) Liquid petroleum products	Gals. million	N.A.	N.A.	N.A.	403(9)	
(ii) Bitumen	Tons	N.A.	N.A.	N.A.	37,500(9)	
27. Pharmaceuticals :						
(i) Benzene hexachloride	Tons	..	..	500	500	3,50
(ii) Sulpha drugs	Lbs. '000	..	..	400	400	
(iii) Para-amino salicylic acid	Tons	..	..	48	48	
(iv) Calcium lactate	,,	..	..	50	50	

(7) The estimated figure relates to the calendar year 1950.

(8) The rated capacity will reach 3·45 million tons, in terms of input of crude oil, by 1956-57 when the two new refineries are expected to be in full production.

(9) Exclusive of the existing capacity.

N. A.—Not available.

APPENDIX IV—(*contd.*)

Industry	Unit	1950-51 Rated Capacity	1950-51 Production	1955-56 Rated Capacity	1955-56 Production	Capital Investment during 1951-56 (Rs. lakhs)
28. Plywood : Tea-chest	Sq. ft. '000	138,840	44,940	180,000 to 190,000	100,000	60
29. Power Alcohol :						
(i) Power alcohol	Gals. million	13	5	21	18	1,20(10)
(ii) Commercial spirit	" "	3	N.A.	3	2	
30. Railway Rolling Stock :						
(i) Locomotives	Numbers	N.A.	N.A.	50 *plus* 50 boilers	50 *plus* 50 boilers	2,50
(ii) Underframes	Numbers	N.A.	N.A.	400	400	
31. Radio Receiver	Numbers '000	77	49	380	350	..
32. Rayon (including cellulosic raw materials) :						
(i) Rayon filament	Lbs. million	4	1	18	18	15,10
(ii) Staple fibre	Bales '000	..	..	28	28	
(iii) Cotton linter	Lbs. million	..	..	5	5	
(iv) Chemical pulp	Tons	..	..	11,500(11)	N	
33. Salt (12)	Tons '000	2,270	1,920	4,026	2,186	N.A.
34. Sewing Machine	Numbers	37,500	32,965	91,500	91,500	..

(10) Includes expenditure for creating facilities for petrol-alcohol mixture.

(11) Construction will be just completed so that the actual production is assumed to be negligible.

(12) Figures relating to the rated capacity (i.e., potential production capacity) and actual production of salt in the private sector have been estimated, except for the industry's total capacity of 4·026 million tons by 1955-56 (including the capacity in the public sector) which was estimated by the Salt Experts Committee.

N.—Negligible. N.A.—Not available.

APPENDIX IV—(*contd.*)

Industry	Unit	1950-51 Rated Capacity	1950-51 Production	1955-56 Rated Capacity	1955-56 Production	Capital Investment during 1951-56 (Rs. lakhs)
35. Soap (including glycerine) :						
Soap	Tons '000	265	106	280	200	60
36. Sugar	" "	1,540	1,116(13)	1,550	1,500	10
37. Tanning & Footwear :						
Footwear	Million pairs	..	85·0	..	91·0	60
38. Textile Machinery :						
(i) Carding engines	Numbers	600	..	600	600	
(ii) Spinning ring frames	"	396	260	800	700	1,50
(iii) Looms-plain, semi and automatic	"	3,600	1,894	8,000	6,000	
39. Vanaspati	Tons '000	333	153	389	300	50
40. Vegetable Oil	" "	N.A.	1,118(14)	N.A.	1,299	60
41. Woollen Manufactures	Lbs. "	20,150	18,000	20,150(15)	25,000	50
42. Other Industries (16)	..	..	..	..	..	38,00
					Total	233,30

(13) Figure relates to the sugar season 1950-51.
(14) The production figure for vegetable oils, excluding coconut oil, relates to the year 1949-50.
(15) Figures for rated capacity as well as production do not take into account the installation of 30,000 spindles for fine woollen yarn.
(16) Including development of power generation in the private sector estimated to cost Rs. 16,00 lakhs, and produce 176,000 K.W. by 1956.

N. A.—Not available.

(Source :—The First Five Year Plan, pages 446—450, Planning Commission, Government of India).

APPENDIX V

(*Reference Paragraph* 20)

Table I

Fuller Utilisation of Existing Capacity for achieving higher Production.

Industry	Unit	Annual installed capacity reckoned on the basis of capacity in			Annual Production				
		March 1951	September 1953	Target for 1955-56	1950-51	1951-52	1952-53	April-September 1953	Target for 1955-56
1	2	3	4	5	6	7	8	9	10
1. Cotton Textiles :									
(i) Yarn, Mill ..	.. Million lbs.	1,669	1,725(a)	4,722	1,179	1,340	1,450	763	1,640
(ii) Cloth, Mill ..	.. Million Yds.	4,744	4,752(a)	4,779	3,718	4,208	4,642	2,516	4,700
(iii) Cloth, hand-loom	.. ,,	3,000	3,000	3,000	810	924	N.A.	N.A.	1,700
2. Paper and paper board	.. '000 tons	137	151	211	114	133	137	71	200
3. Sugar (b)	.. '000 tons	1,540	1,550	1,550	1,116	1,483	1,316	..	1,500
4. Soap (c)	.. '000 tons	265	266	280	106	116	117	58	200
5. Salt	.. '000 tons	55,613 acres	N.A.	65,200 acres	1,920	2,773	2,713	2,534	3,076
6. Vanaspati	.. '000 tons	333	340	388	153	177	198	85	300
7. Matches	.. '000 gross boxes	35,300	35,300	38,300	26,850	29,250	31,750	14,935	35,300
8. Footwear, leather (d)	.. '000 pairs	N.A.	N.A.	N.A.	5,195	5,712	5,102	2,843	7,500 8,000

N.A.—Not available

(a) As on 1st January 1953. The capacity has been calculated on the basis of 4 oz. of yarn per spindle and 40 yards of cloth per loom per shift and assuming 2 shifts and 305 working days per annum.

(b) Production statistics correspond to the sugar season. Capacity based on 120 working days per annum.

(c) Production statistics also include the output of the unorganised sector estimated at 30,000 tons per annum.

(d) Production statistics relate to organised factories covered by the Monthly Statistics of Production of Selected Industries of India.

APPENDIX V

Table I—(*contd.*)

Industry	Unit	Annual installed capacity reckoned on the basis of capacity in			Annual Production				
		March 1951	September 1953	Target for 1955-56	1950-51	1951-52	1952-53	April-September 1953	Target for 1955-56
1	2	3	4	5	6	7	8	9	10
9. Electric Lamps (G.L.S.) ..	Million Nos.	23·0	26·0	32·5	15·0	16·8	20·7	9·0	30·0
10. Bicycles	'000 Nos.	120	420(e)	530	101	135	191	140	530
11. Electric Fans	'000 Nos.	288	304	360	194	208	188	115	320 350
12. Radio Receivers	'000 Nos.	77	153	380	49	71	68	28	350
13. Hurricane Lanterns ..	'000 Nos.	4,300	4,400	4,500	3,240	3,586	3,579	2,285	6,000
14. Sewing Machines	Nos.	37,500	41,496	91,500	32,965	45,855	52,472	30,205	91,500
15. Paint and Varnish Ready Mixed Paints	'000 tons	65	65	70	29	33	31	15	60
16. Jute Manufactures.. ..	'000 tons	1,200	1,200	1,200	892	894	930	440	1,200
17. Tea Chest Plywood ..	'000 sq. ft.	138,840	162,000	180,000 190,000	44,940	65,043	65,191	23,221	100,000
18. Power-Alcohol	Million gallons	13·0	13·0	21·1	5·0	6·0	8·0	4·0	18·0

(e) Refers to the assembling capacity of the 6 firms now in production.

APPENDIX V—(*contd.*)

Table II

Progress in some of the Producer and Capital Goods Industries whose Expansion was considered necessary under the Five Year Plan

Industry	Unit	Annual installed capacity reckoned on the basis of capacity			Production				
		March 1951	September 1953	1955-56	1950-51	1951-52	1952-53	April-September 1953	Target for 1955-56
1	2	3	4	5	6	7	8	9	10
1. Finished Steel (Main Producers) ..	'000 tons	1,015	N.A.	1,650*	976	1,083	1,084	314	1,650*
2. Aluminium	'000 tons	4,000	4,000	20,000	3,677	3,778	3,572	1,633	12,000
3. Cement	'000 tons	3,280	4,188	5,306	2,692	3,281	3,510	1,889	4,800
4. Fertilizers :									
(i) Ammonium Sulphate ..	'000 tons	79	427	481	46	95	252	151	450
(ii) Superphosphate	'000 tons	123	193	209	55	57	50	21	180
5. Heavy Chemicals :									
(i) Sulphuric acid	'000 tons	150	180	221	99	129	96	40	200
(ii) Caustic-Soda	'000 tons	19	37	37	11	15	17	10	33
(iii) Soda Ash	'000 tons	54	54	86	45	47	47	28	78
6. Sheet Glass	'000 tons	12	38	52	6	9	11	3	26
7. Rayon Filament	'000 tons	4,000	10,214	22,000	400	5,638	8,884	4,859	22,000
8. Textile Machinery :									
(i) Hand Spinning Frames ..	Nos.	396	396	800	260	279	255	113	700
(ii) Looms	Nos.	3,600	4,200	8,000	1,894	2,046	1,572	1,176	6,000
(iii) Carding Engine	Nos.	..	600	600	..	27	81	111	600
9. Locomotives	Nos.	N.A.	N.A.	15	N.A.	27	85	N.A.	150
10. Ball and Roller Bearings ..	'000 Nos.	600	600	1,200	87	237	496	316	1,200

* By 1957-58.
N.A. :—Not available.
(Source : The Progress of the Plan—January, 1954, pages 62-65—Planning Commission, Government of India)

APPENDIX V(A)

(Reference Paragraph 21)

Statement I

Progress of Investment in Industry in 1951-53

Name of Industry	Estimated fixed capital investment. (Rs. lakhs)	
Metallurgical		
1. Iron & Steel-Main Producers	4,49·0	
2. Aluminium	66·5	
3. Other Metallurgical Industries (Metal Corporation of India)	30·0	
		5,45·5
Engineering Industries Mechanical		
4. Bicycles	1,20·0	
5. Diesel Engines & Pumps	30·0	
6. Automobiles	75·0	
7. Textile Machinery	1,50·0	
8. Railway Rolling Stock	2,32·0	
9. Other Mechanical Engineering Industries (d)	1,50·0	
		7,57·0
Electrical		
10. Dry Batteries	25·0	
11. Electric Cables & Wires	75·0 (e)	
12. Electric Motors & Transformers	15·0	
13. Electrical Power Generators 3 (major)	10,50·0	
14. Other Electric Engineering Industries	1,00·0	
		12,65·0
Chemical & Allied		
15. Heavy Chemicals and Fertilisers	2,25·0	
16. Drugs and Pharmaceuticals	3,00·0	
17. Paints and Varnishes	30·0	
18. Petroleum Refiniery	2,91·5	
19. Paper	3,00·0	
20. Rayon	2,52·0	
21. Cement	5,78·0	
22. Sugar	50·0	
23. Vegetable Oils, Vanaspati & Soap	50·0	
24. Glass	1,20·0	
25. Cotton Textiles	2,50·0	
26. Other industries	2,00·0	
		26,46·5
		52,14·0

(d) Includes conduit pipes, wood screws, sewing machines, ball bearings, typewriters, razor blades, etc.

(e) Includes expansion programme of Indian Cable Company.

APPENDIX V (A)—(*contd.*)

Statement II

Projects recommended by the Plan

Project	Anticipated Investment in Rs. lakhs	Remarks
New Iron & Steel Plant	1000 to 1500	Excluding State contribution
Gypsum-sulphur Plant	350	
New Soda Ash Plant	150 to 200	
Potassium Chlorate Plant	20 to 25	
7 Power Alcohol Distilleries and Expansion of of some Distilleries in U. P.	60 to 65	During 1953-56
Cotton Textiles—Additonal Spindles and Expansion of Uneconomic Units	800 to 900	
Chemical Pulp Plant	600	During 1953-56
Cotton Linters cum Cottonseed Oil Plants	60	
Small-scale Units for Matches	50	
Solvent Extraction Units for Vegetable Oils Industry	60	
Mixing Depots (Power Alcohol—Petrol) ..	10	
	3160 to 3820	

APPENDIX VI

(*Reference Paragraphs* 67 & 183)

State Financial Corporations

(Rupees in lakhs)

Name of the Corporation	Authorised Capital	Issued Capital	Distribution of issued Capital	
	Rs.	Rs.		Rs.
PART 'A' STATES :				
Punjab Financial Corporation	2,00	1,00	(1) State Govt.	30
			(2) Reserve Bank	20
			(3) Financial Institutions	40
			(4) Others	10
Bombay State Financial Corporation ..	2,00	1,00	(1) State Govt.	31
			(2) Reserve Bank	20
			(3) Financial Institutions	44
			(4) Others	5
West Bengal Financial Corporation ..	2,00	1,00	(1) State Govt.	30
			(2) Reserve Bank	20
			(3) Financial Institutions	40
			(4) Others	10
PART 'B' STATES :				
Saurashtra Financial Corporation ..	2,00	1,00	(1) State Govt.	26
			(2) Reserve Bank	10
			(3) Financial Institutions	54
			(4) Others	10
Travancore-Cochin Financial Corporation	2,00	1,00	(1) State Govt.	50
			(2) Reserve Bank	15
			(3) Financial Institutions	30
			(4) Others	5
Hyderabad State Financial Corporation	2,00	1,00	(1) State Govt.	50
			(2) Reserve Bank	10
			(3) Financial Institutions	35
			(4) Others	5

APPENDIX VII (a)

(*Reference Paragraph* 68)

Assistance to Industries by the Central Government

(In lakhs of Rupees)

	1951-52 (Accounts)	1952-53 (R. E.)	1953-54 (B.E.)
(1) Investments in shares of Private Industry	—	25	108
(2) Loans to Private Industry	310(R.E.)	274	827
(3) Grants-in-aid to Industry	90	17	9
Total	400	316	944

Notes :—(1) Includes investments in Hindustan Shipyard, Eastern Shipping Corporation & Machinery Manufacturing Corporation, etc.

(2) Includes loans to Iron & Steel Companies and Shipping Companies, etc.

(3) Includes grants to Central Silk Board, Soda Ash Industry, Aluminium Industry, etc.

APPENDIX VII (b)

TABLE I

(*Reference Paragraph* 68)

Assistance to Industries by Part 'A' States

(In lakhs of Rupees)

	1951-52 (Accounts)	1952-53 (R.E.)	1953-54 (B. E.)
(1) Investments in shares of Private Industry	128	186	210
(2) Loans to Private Industry	156	280	266
(3) Grants-in-aid to Private Industry	6	30	22
Total	290	496	498

Note :—(1) Includes Fertilizers and Chemicals Travancore Ltd., Madras Industrial Investment Corporation, Co-operative Banks, etc.

APPENDIX VII (b)

TABLE II

(*Reference Paragraph* 68)

Assistance to Industries by Part 'B' States

(In lakhs of Rupees)

	1951-52 (Accounts)	1952-53 (R. E.)	1953-54 (B. E.)
(1) Investments in shares of Private Industry	530	26	157
(2) Loans to Private Industry	77	90	42
(3) Grants-in-aid to Private Industry	—	2	—
Total	607	118	199

Note :—(1) Includes State Finance Corporations, Co-operative Banks, Electrical and Telephone Industries, Caning Industries, Raw Films, etc.

APPENDIX VIII

(*Reference Paragraph* 71)

Financial Assistance rendered by the various State Governments to Industries during the Period 1945-50

(Rupees in lakhs)

Name of State	Year	No. of applications received	No. of applications rejected	Total amount applied for	Total amount sanctioned	Amount outstanding as at 31-3-1950.
1	2	3	4	5	6	7
				Rs.	Rs.	Rs.
West Bengal	1945-46	7	2	0·77	0·02	
	1946-47	18	17	2·43	0·37	
	1947-48	8	7	0·96	Nil	
	1948-49	33	23	16·65	Nil	
	1949-50	85	57	28·18	2·93	3·39
Bombay	1945-46	46	9	0·70	0·18	
	1946-47	107	17	3·04	1·83	
	1947-48	192	28	11·82	2·86	
	1948-49	308	36	18·16	9·06	
	1949-50	410	38	1,00·06	9·47	20·35
Uttar Pradesh	1947-48	300	240	15·23	1·84	
	1948-49	545	441	32·74	4·24	
	1949-50	490	263	18·34	4·99	6·95
Punjab (I)	1948-49	128	37	14·66	7·20	
	1949-50	151	63	21·41	7·00	6·33
Madras	1945-46	7	7	6·65	2·00	
	1946-47	13	11	17·62	Nil	
	1947-48	23	14	34·69	0·98	
	1948-49	85	58	1,60·29	48·28	
	1949-50	74	38	1,70·15	34·44	60·01

APPENDIX VIII—*Contd.*

(Rupees in lakhs)

Name of State	Year	No. of applications received	No. of applications rejected	Total amount applied for	Total amount sanctioned	Amount outstanding as at 31-3-1950
1	2	3	4	5	6	7
				Rs.	Rs.	Rs.
Assam*	1948-49	49	24	3·05	0·46	
	1949-50	62	43	3·58	0·31	0·59
Mysore	1945-46	245	213	N.A.	0·89	
	1946-47	501	472	N.A.	0·27	
	1947-48	511	473	N.A.	0·62	
	1948-49	548	524	N.A.	0·72	
	1949-50	380	324	N.A.	0·88	1·46@
Hyderabad (Industrial Trust Fund) ..	1945-46	8	2	O.S. 6·45	O.S. 3·09	
	1946-47	21	15	O.S. 59·48	O.S. 3·98	
					I.G. 0·08	
	1947-48	25	13	O.S. 137·69	O.S. 114·35	
				I.G. 12·00	I.G. 12·00	
	1948-49	28	11	O.S. 40·92	O.S. 15·05	
				I.G. 6·16	I.G. 6·16	
	1949-50	45	40	O.S. 33·10	O.S. 11·50	O.S. 1,53·31
				I.G. 31·00	I.G. 10·00	I.G. 29·02
Travancore-Cochin**	1945-46	20	8	N.A.	0·22	
	1946-47	40	36	N.A.	0·08	
	1947-48	28	24	N.A.	0·11	
	1948-49	45	36	N.A.	5·45	
	1949-50	10	1	N.A.	3·31	1,23·52

* Figures supplied by the Departments of Cottage Industries, Sericulture and Weaving only.
** Indicates the number of applications received through the Industries Departments only.
@ As on 30-6-1949.
N.A. Not available.

APPENDIX IX

(*Reference Paragraphs* 85 & 124)

Facilities available under the Reserve Bank of India Remittance Facilities Scheme to Scheduled Banks, State Co-operative Banks, Co-operative Banks and Societies, and approved Non-scheduled Banks and Indigenous Bankers

1. *Scheduled banks :*

As provided under Regulation 8(1) of the Reserve Bank of India Scheduled Banks' Regulations, a scheduled bank may remit money by 'Bank' Draft, Mail or Telegraphic Transfer through *offices of the Bank and Agencies*, as detailed below :—

(i) an amount of Rs. 10,000/- (minimum) or in multiples of Rs. 1,000/- in excess thereof between its accounts at the offices of the Bank, free of charge ;

(ii) once a week*, an amount of Rs. 5,000/- or a multiple thereof from any place at which there is an Agency of the Bank to any account which it maintains with the Bank, such remittances being permitted to each of its offices, branches, sub-offices and pay offices, free of charge ;

**Note :* For purposes of this Clause the term 'week' means the period commencing from a Saturday and ending with the succeeding Friday.

(iii) other remittances to an account which it maintains with the Bank, from any place at which there is an Agency of the Bank at 1/64% subject to a minimum of Re. 1/- ; and

(iv) all other remittances not covered by (i), (ii) and (iii) above and made in favour of itself at the following rates :
up to Rs. 5,000/- 1/32% (minimum Re. 1/-)
over Rs. 5,000/- 1/64% (minimum Rs. 1-9-0)

Note :—If remittances are made by telegram, a further amount to cover the cost of the telegram and its acknowledgement shall be recovered.

In addition, a scheduled bank may also remit money by 'Bank' Draft or Telegraphic Transfer favouring its own branches, commercial banks or co-operative banks and societies, and the general public through *offices of the Bank, Agencies and Treasury Agencies* at the rates indicated in the attached Table I. Mail Transfers may also be issued for remittances between accounts maintained at offices and Agencies of the Bank at the same rates.

Note :—A scheduled bank desiring a remittance in favour of a commercial or co-operative bank, society or an indigenous banker under the provisions of the above paragraph will be required to furnish the following certificate on the application form.

"Certified that the above remittance is required for a *bona fide* purpose of the bank and not on behalf of a third party."

2. *Co-operative banks and societies :*

A co-operative bank or society may obtain 'Bank' Drafts or Telegraphic Transfers from *offices of the Bank, Agencies and Treasury Agencies* for remittances favouring itself or a third party, whether a bank or an individual, at the rates indicated in the attached Table II. Mail Transfers may also be issued for remittances between accounts maintained at offices and Agencies of the Bank at the same rates.

In addition, special facilities for remittance of money by 'Bank' Drafts, Mail or Telegraphic Transfers through *offices of the Bank ond Agenoies* as detailed in (i), (ii) and (iii) of paragraph 1 above are available to state co-operative banks and their affiliated central or industrial co-operative banks, which will be treated as branches of the former for purposes of these concessional facilities. The grant of these facilities is, however, subject to the following conditions.

(1) The state co-operative bank shall undertake to maintain with the Reserve Bank a balance, the amount of which shall not, at the close of business on any day, be less than 2½% per cent of its demand liabilities and 1 per cent of its time liabilities as shown by the return referred to in (2) below ;

(2) It shall send to the Reserve Bank at the close of business on each Friday, or if Friday is a public holiday under the Negotiable Instruments Act, at the close of business on the preceding working day, a return of its position in the form prescribed in Section 42(2) of the Reserve Bank of India Act and signed by two of its responsible officers ; such return shall be sent not later than two working days after the date to which it relates ;

(3) If, at the close of business on any day before the day fixed for the next return, the balance held at the Bank by any state co-operative bank falls below the minimum indicated in (1) above, the bank shall pay to the Reserve Bank in respect of each such day penal interest at a rate 3 per cent above the bank rate (with a minimum of Rs. 10/-) on the amount by which the balance with the Reserve Bank falls short of the required minimum, and if on the day fixed for the next return such balance is still below the prescribed minimum as disclosed by the return, the rate of penal interest shall be increased to a rate 5 per cent above the bank rate in respect of that day and each subsequent day for which the default continues. If any state co-operative bank, however, wilfully defaults in the maintenance of the minimum balances for periods exceeding two weeks or fails to send the return referred to in (2) above, the remittance facilities are liable to be withdrawn from the bank concerned.

3. *Approved non-scheduled banks and indigenous bankers :*

A non-scheduled bank to be eligible to concessional remittance facilities under the Scheme must be a company registered under the Indian Companies Act and transacting banking business in India as defined in Section 5 (1) (b) of the Banking Companies Act, 1949, with a minimum paid up capital of Rs. 50,000/. Non-scheduled banks satisfying the above conditions and desirous of availing themselves of

concessional remittance facilities under the Scheme should apply to the Department of Banking Operations of the Bank at Bombay for inclusion in the approved list.

Only those persons or firms who accept deposits and/or discount hundies with joint stock and other banks with a view to making loans will be included under the term *indigenous banker*. Any person/firm who comes under the above category and owning a minimum capital of Rs. 50,000/- may, on application, be included in the approved list of indigenous bankers provided that he/it conforms to the money lending regulation in force in the State in which he/it carries on banking business.

An approved non-scheduled bank/indigenous banker may remit money through offices of the Bank, Agencies and Treasury Agencies by 'Bank' Draft or Telegraphic Transfer, in favour of its branches or third parties whether banks or otherwise, at the rates indicated in the attached Table III. Mail Transfers may also be issued for remittances between accounts maintained at offices and Agencies of the Bank at the same rates.

(Source : "Reserve Bank of India Remittance Facilities Scheme", Second Edition, 1953 : p. 5-8).

TABLE I

Scheduled banks*

(other than remittances under Regulation 8)

Nature of drawing			(a) Favouring themselves or a commercial or co-operative bank/society or an indigenous banker	(b) Favouring parties other than those mentioned at (a)
Drafts	Up to Rs. 5,000	..	1/32% Min. Re. 1/-@	1/16% Min. Re. 1/-@
	Over Rs. 5,000	..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
Mail Transfers	Up to Rs. 5,000	..	1/32% Min. Re. 1/-	1/16% Min. Re. 1/-
	Over Rs. 5,000	..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
Telegraphic Transfers	Up to Rs. 5,000	..	1/32% Min. Re. 1/-	1/16% Min. Re. 1/-
	Over Rs. 5,000	..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
			Plus the cost of telegram and its acknowledgment.	Plus the cost of telegram and its acknowledgment.

* The Imperial Bank has discretion to charge lower rates.

@ Drafts for small amounts will be issued at the rate applicable *to the public viz.* 1/8% Minimum As. 4/-.

TABLE II

Co-operative banks and societies*

(other than special facilities admissible to state co-operative banks)

Nature of drawing			(a) Favouring themselves †	(b) Favouring third parties.
Drafts	Up to Rs. 5,000	..	1/32% Min. As. 4/-	1/16% Min. As. 4/-
	Over Rs. 5,000	..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
Mail Transfers	Up to Rs. 5,000	..	1/32% Min. As. 4/-	1/16% Min. As. 4/-
	Over Rs. 5,000	..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
Telegraphic Transfers	Up to Rs. 5,000	..	1/32% Min. As. 4/-	1/16% Min. As. 4/-
	Over Rs. 5,000	..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
			Plus the cost of telegram and its acknowledgment.	Plus the cost of telegram and its acknowledgment.

* The Imperial Bank has discretion to charge lower rates.

† For purposes of these facilities, a central co-operative bank or an industrial co-operative bank affiliated to a state co-operative bank will be treated as a branch of the latter.

TABLE III

Non-scheduled banks and Indigenous bankers*

Nature of drawing		(a) Favouring themselves	(b) Favouring third parties
Drafts	Up to Rs. 5,000 ..	1/32% Min. Re. 1/-@	1/16% Min. Re. 1/-@
	Over Rs. 5,000 ..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
Mail Transfers	Up to Rs. 5,000 ..	1/32% Min. Re. 1/-	1/16% Min. Re. 1/-
	Over Rs. 5,000 ..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
Telegraphic Transfers	Up to Rs. 5,000 ..	1/32% Min. Re. 1/-	1/16% Min. Re. 1/-
	Over Rs. 5,000 ..	1/64% Min. Rs. 1/9/-	1/32% Min. Rs. 3/2/-
		Plus the cost of telegram and its acknowledgment.	Plus the cost of telegram and its acknowledgment.

* The Imperial Bank has discretion to charge lower rates.

@ Drafts for small amounts will be issued at the rate applicable *to the public viz.* 1/8% Minimum As. 4/-.

APPENDIX IX (A)

(*Reference Paragraph* 122)

Facilities for Transfers of Funds provided by the Federal Reserve System of the U. S. A.

*   *   *   *

Transfers of bank balances for member banks :

1. Telegraphic transfers between Federal Reserve Banks and branches of bank balances of $1,000 or over will be made for member banks without charge, and telegrams requesting us to make such transfers may be sent to us "collect". Such transfers will be made for and paid to member banks only. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account maintained by a member bank with its Federal Reserve Bank or with another member bank.

2. The descriptive data in telegrams transferring bank balances without charge must be limited to (1) the name of the sending member bank, (2) the name of its correspondent member bank requesting the transfer, (3) the name of the member bank receiving credit, and (4) the name of its correspondent member bank.

3. Transfers for the benefit or use of an individual, firm, corporation or nonmember bank, and transfers of the proceeds of individual collection items or individual cash letters, will not be made without charge.

Other transfers :

4. Telegraphic transfers of funds for any purpose and in any amount and without limitation as to descriptive data will be made for and paid to member banks, subject in each case to a charge which will approximate but not exceed the commercial wire rate for the telegram or telegrams involved in the transfer. While such transfers will be made for and paid to member banks only, they may be for the use of any bank, individual, firm or corporation.

5. Telegraphic transfers of bank balances in multiples of $100 will be made for nonmember clearing banks subject to a charge as outlined in the preceding paragraph. Requests for such transfers will be accepted from any member bank for the credit of any nonmember clearing bank, and from any nonmember clearing bank for the credit of any member bank or any other nonmember clearing bank.

6. Member and nonmember clearing banks should prepay the cost of telegrams requesting transfers that are subject to a charge, and telegrams to member and nonmember clearing banks advising of credit will be sent "collect".

Advices of credit :

7. In addition to the usual mail advice to the bank receiving credit for a telegraphic transfer of funds, immediate advice by telegraph, or otherwise, will be given by the Federal Reserve bank receiving the

transfer in cases where the sending bank or the credited bank has stated that other than the usual mail advice is necessary, or where the nature of the transaction or the amount involved indicates that the additional expense is justified, as to which the receiving Federal Reserve bank will exercise its discretion. All such wire advices will be at the expense of the bank receiving credit and, therefore, will be sent collect.

* * * *

Mail Transfers :

8. Transfers of funds for any purpose and in any amount and without limitation as to descriptive data will be made by mail for member and nonmember clearing banks to other member and nonmember clearing banks located in this or in any other Federal Reserve District. While such transfers will be made for and paid to member and nonmember clearing banks only, they may be for the use of any bank, individual, firm or corporation.

General :

9. Transfers of funds will be made by us only from collected funds on deposit with us to credit of the bank making the request.

10. When a request to transfer funds is sent to us by telegram, the American Bankers Association Code should be used with our test word, and a letter of confirmation (not in code) over an authorized signature should follow.

11. Member banks and nonmember clearing banks are requested to cooperate with us by using the mails to effect transfers of funds which do not require immediate credit, either by forwarding drafts direct or by using our mail transfer facilities.

* * * *

Source : Operating Circular No. 10, December 8, 1947 and First Supplement to Operating Circular No. 10, January 8, 1951 issued by the Federal Reserve Bank of New York.

APPENDIX X

(*Reference Paragraph* 102)

Income, Deposits and Percentage Distribution of Income and Economically Active Population according to Occupation

Country	Income per head† Rs.	Deposits per head† Rs.		(a) Percentage of economically active population engaged in * (b) Percentage of income from sources * Agriculture	Industries (including mining)	Construction, transport and communication	Commerce	Others
1	2	3		4	5	6	7	8
U. S. A.	9177	4493	(a)	14·3	25·7	11·3	23·5	25·2
			(b)	8·0	32·9	11·8	28·0	19·3
Canada	6256	2733	(a)	25·7	27·8	14·3	15·6	16·6
			(b)	16·4	33·5	15·2	20·4	14·5
U. K.	3624 X	1636	(a)	5·4	41·9	14·4	11·5	26·8
			(b)	5·4	42·0	13·6	13·2	25·8
France	3582	749	(a)	36·5	24·4	11·6	8·6	18·9
			(b)	20·2	23·1	18·4	13·1	25·2
W. Germany	2335	534	(a)	24·3	42·7	A	17·6	15·4
			(b)	11·7	52·4	8·8	10·0	17·1
Union of S. Africa	1184	413	(a)	49·1	15·9	5·4	7·6	22·0
			(b)	12·9	35·3	11·3	17·1	23·4
Japan	758 Z	314	(a)	54·3	19·2	7·8	7·1	11·6
			(b)	28·4	29·3	11·1	16·0	15·2
India	256 Y	25W	(a)	68·2	14·1	1·8	6·2	9·7
			(b)	47·5	17·2	2·6	16·8	15·9

† Calculated on the basis of national income for 1952 ; deposits at the end of 1952; and population: France (1946); India (1948-49); U. S.A. W. Germany and Japan (1950); Canada, U. K. and Union of S. Africa (1951).

* France (1946), Canada (1948), Union of S. Africa (1948-49), India (1951), W. Germany, Japan, U. K. and U. S. A. (1949).

Z. National Income for year beginning April, 1, 1951.

Y. National income for 1948-49.

X. Gross National Product.

W. Population 1951.

A. Transport and Communications included under commerce.

Source: —International Financial Statistics & United Nations Statistical Papers, Series E. No. 3.

APPENDIX XI

(*Reference Paragraph* 102)

Deposits as Multiple of Currency

(Amount in millions of national currency)

		End of 1952		
	Currency Unit	Amount of Currency	Total Deposits	Deposits as multiple of currency
U. S. A.	$	27,500	142,200	5·17
Canada	$C	1,377	7,925	5·76
U. K.	£	1,450	6,160	4·25
Australia	£A	337	1,296	3·85
France	Franc	2,124,000 A	2,131,000	1·00
W. Germany	D. M.	10,220	22,500	2·20
Union of S. Africa	£SA	85	392	4·61
Japan	Yen	554,300	2,011,800	3·63
India	Rs.	11,860	9,050	0·76
Italy	Lira	1,343,000	3,615,000	2·69
Ceylon	Rs.	357	914	2·56
Thailand	Baht	3,604 D	1,502 D	0·42
Pakistan	Rs.	2,147	1,337	0·62
Phillippines	P. Pesos	624	769	1·23
Egypt	E£	207	191	0·92

A—Gross. D—End of June 1952.

Source : International Financial Statistics.

APPENDIX XII

(Reference Paragraph 104)

Earnings and Expenses of Indian Scheduled Banks

(Amounts in lakhs of rupees)

	1948	1949	1950	1951	1952
1. No. of banks :	71	73	71	72	73
2. Deposits* :	875,20·0	759,72·0	754,07·0	748,25·0	715,37·0
3. Earnings :					
(a) Interest, etc. ..	25,07·6	24,12·0	24,08·7	25,89·9	28,16·8
(b) Recoveries on assets previously written down and gains from other revaluation or sale of assets ..	69·2	94·9	13·2	6·9	6·9
(c) Other sources ..	3,96·6	4,55·5	4,88·3	6,31·2	6,14·5
Total earnings ..	29,73·4	29,62·4	29,10·2	32,28·0	34,38·2
4. Expenses :					
(a) Interest on deposits etc.	7,60·3	7,20·6	6,83·1	7,59·5	9,06·1
(b) Establishment expenses	9,50·1	10,32·2	11,24·8	11,98·6	12,84·3
(c) Other working expenses	3,49·7	3,34·7	3,39·2	3,96·4	4,00·0
(d) Taxes and dues of the nature of operating expenses ..	45·8	24·4	33·4	34·7	40·0
(e) Depreciation written off and loss incurred in sale of assets ..	60·2	62·5	71·3	87·9	64·1
Total expenses	21,66·1	21,74·4	22,51·8	24,77·1	26,94·5
5. Earnings from banking operations : .. (Earnings minus recoveries on assets previously written down, etc., i.e., total of 3—3(b))	29,04·2	28,67·5	28,97·0	32,21·1	34,31·3
6. Gross profit : .. .. (Earnings from banking operations less interest paid on deposits, etc., i.e., 5—4(a))	21,43·9	21,46·9	22,13·9	24,61·6	25,25·2
7. Net profit : .. .. (Earnings minus expenses, i.e. 3—4)	8,07·3	7,88·0	6,58·4	7,50·9	7,43·7
8. Percentage of establishment expenses to gross profit (percentage of 4(b) to 6) :	44·32	48·08	50·81	48·69	50·86
9. Percentage of establishment expenses to deposits (percentage of 4 (b) to 2):	1·09	1·36	1·49	1·60	1·80
10. Total number of Offices*	3,115	2,923	2,824	2,692	2,674
11. Average establishment expenses per office (approx.) :	Rs. 30,000	Rs. 35,000	Rs. 40,000	Rs. 45,000	Rs. 48,000

* The figures in respect of deposits and the no. of offices relate to 79,78,75,76 & 76 Indian scheduled banks for the years 1948, 1949, 1950, 1951 and 1952 respectively.

APPENDIX XIII

(*Reference Paragraph* 108)

Ratio of Establishment Expenses to Deposits in India and the United States of America

	Deposits	Establishment expenses	Percentage of (2) to (1)
	(1)	(2)	(3)
		(Rs. lakhs)	
INDIA			
1949	759,72	10,32	1·36
1950	754,07	11,24	1·49
1951	748,25	11,98	1·60
1952	715,37	12,84	1·80
U. S. A.		($ million)	
1949	123,885	926	0·75
1950	133,089	1,000	0·75
1951	141,015	1,125	0·80
1952	147,527	1,244	0·84

APPENDIX XIV

(*Reference Paragraph* 152)

Acts for the Regulation of Moneylending Business in general passed by the State Governments from time to time

Assam :	The Assam Moneylenders Act, 1934.
Bihar :	The Bihar Moneylenders Act, 1938. The Bihar Moneylenders (Regulation of Transactions) Act, 1939.
Bombay :	The Bombay Moneylenders Act, 1946.
Coorg :	The Coorg Moneylenders Act, 1939.
Hyderabad :	The Hyderabad Moneylenders Act, 1349F (1938).
Madhya Bharat :	The Madhya Bharat Moneylenders Act, 1950.
Madras :	The Madras Debtors Protection Act, 1934. The Madras Pawnbrokers Act, 1943.
Madhya Pradesh :	The Usurious Loans Act of 1918 as amended by the Usurious Loans (Central Provinces Amendment) Act, 1934. C. P. and Berar Moneylenders Act,1934. C. P. and Berar Protection of Debtors Act, 1937.
Mysore :	The Mysore Moneylenders Act, 1939.
Orissa :	The Orissa Moneylenders Act,1939.
Punjab :	The Usurious Loans Act, 1918 (as amended by the Punjab Relief of Indebtedness Act, 1934). The Punjab Regulation of Accounts Act, 1930. The Punjab Debtors Protection Act, 1936. The Punjab Registration of Moneylenders Act, 1938.
Uttar Pradesh :	The Usurious Loans (U. P. Amendment) Act, 1934.
West Bengal :	The Bengal Moneylenders Act, 1940.

APPENDIX XV

(*Reference Paragraph* 152)

Table showing the Maximum Rates of Interest prescribed under the various Moneylenders Acts in the States

State	Name of the Act	Maximum interest chargeable on			
		Secured Loans		Unsecured Loans	
		Simple	Compound	Simple	Compound
1	2	3	4	5	6
1. Assam	The Assam Money-lenders Act, 1934.	9-3/8%	Prohibited	12½%	Prohibited
2. Bihar	The Bihar Money-lenders (Regulation of Transactions) Act, 1939.	9%	do.	12%	do.
3. Bombay	The Bombay Money-lenders Act, 1946.	9%	—	12%	—
4. Madhya Pradesh	The Usurious Loans Act of 1918 as amended by the Usurious Loans (Central Provinces Amendment) Act, 1934.	12%	10%	18%	10%
5. Madras	The Madras Pawn-brokers Act, 1943.	9-3/8% in the case of loans up to Rs. 25 and 6¼% in other cases except certain Nidhis and Funds (incorporated under the Indian Companies Act, 1913, before the 1st November, 1944) where the rate is 6¾%.	—	—	—
	The Madras Debtors Protection Act, 1934.	9%	If compound interest is charged the amount claimed by way of such interest should not exceed the amount calculated on the basis of the rates of simple interest specified, over the same period.	15%	(Same as in column 4)

APPENDIX XV—(*contd.*)

State	Name of the Act	Maximum interest chargeable on			
		Secured Loans		Unsecured Loans	
		Simple	Compound	Simple	Compound
1	2	3	4	5	6
6. Orissa	The Orissa Moneylenders Act, 1939.	9%	—	12%	—
7. Punjab	The Usurious Loans Act, 1918 (as amended by the Punjab Relief of Indebtedness Act, 1934).	7½% or 2% over the Bank Rate whichever is higher at the time of of taking the loan.	—	12½%	—
8. Uttar Pradesh	The Usurious Loans Act, 1918 as modified by the Usurious Loans (United Provinces Amendment) Act, 1934.	12%*	—	24%	—
9. West Bengal	The Bengal Moneylenders Act, 1940.	8%	—	10%	—
10. Hyderabad	The Hyderabad Moneylenders Act, 1349F.	6%	Prohibited	9%	Prohibited
11. Mysore	The Mysore Moneylenders Act, 1939.	9%	6% per annum with yearly rests.	12%	6% per annum with yearly rests.
12. Coorg	The Coorg Moneylenders Act, 1939.	7½%	Prohibited	12%	Prohibited

* In the case of loans secured by a first mortgage ; in the case of loans secured otherwise than by a first mortgage, higher interest may be allowed by a court if it considers that the nature of security warrants it.

APPENDIX XVI

(*Reference Paragraph* 160)

Memorandum submitted to the Committee by certain Insurance Interests regarding Anomalies in the Insurance Act

(i) Shares of a Society, registered under the Co-operative Societies Act, guaranteed by the State Governments as to payment of interest and repayment of share capital should be classified as Approved Security by suitable amendment to the definition of Approved Security [Sec. 2(3)].

(ii) As the Act stands at present an insurer cannot apply for debentures of companies which do not come within the purview of Sec. 27A(1) (f), (g) and (h) even after obtaining requisite consent of the Directors under Sec. 27A(2) of the Act. This, we understand, is due to the fact that an investment in non-approved debentures is considered a loan to the company which is prohibited under Sec. 29(3). Suitable amendment to Sec. 29(3) be made so as to permit insurers to apply for a debenture issue which is not an approved investment.

(iii) Debentures (a superior security) are at times non-approved although preference shares and/or ordinary shares (an inferior security compared to debentures) are an approved investment. Suitable amendment be made in Sec. 27A (1) (f), (g) and (h) to remove this anomaly.

(iv) According to Sec. 27A(1)(g) book-value or market value, whichever is less, of the fixed assets offered as security to debenture-holders should be at least three times the value of debentures. Conventionally by 'book-value' is meant the cost of assets less depreciation. In the case of well managed companies, the block is always well depreciated and the provision in clause (g) of Section 27A(1) will operate against such companies. Suitable amendment be suggested to reduce the coverage, say, to two times in such cases.

(v) Usually a new debenture issue is made to finance the cost of fixed assets. As the Act stands at present proposed addition to fixed capital expenditure cannot be taken into account for ascertaining the coverage stipulated by Sec. 27A (1) (g). We suggest that by a suitable amendment intended addition to fixed assets may be allowed to be taken into account for ascertaining coverage (subject to adequate safeguards regarding ultilisation of money borrowed for the purpose of additions to fixed assets).

(vi) Under Sec. 27A(1)(l) of the Act, investment in ordinary shares is an approved investment provided a dividend of 4 per cent has been paid for the years stipulated in the Act. The Act is, however, silent on the point whether dividend should be taxable or tax free. We suggest that a suitable amendment may be made so as to fix minimum dividend at 4 per cent taxable or 3 per cent tax free.

(vii) Investment in Government guaranteed Railway shares (which are Trustee Securities) should by suitable amendment be classified as approved investments.

APPENDIX XVII

(*Reference Paragraphs* 73 & 195)

Operations of Industrial Co-operative Societies during 1951-52

	Weavers' Societies				
	No. of societies	No. of members	Share Capital paid-up	Working Capital	Sale of finished goods
PART 'A' STATES			Rs. lakhs	Rs. lakhs	Rs. lakhs
1. Assam	129	2,922	0·22	0·62	0·58
2. Bihar	149	13,095	2·94	5·53	42·45
3. Bombay	482	65,101	28·49	108·51	55·35
4. Madras	1,161	221,853	118·36	383·79	1020·30
5. Madhya Pradesh ..	273	54,549	12·40	22·30	141·04
6. Orissa	139	12,778	0·76	3·12	22·65
7. Punjab (I)	143@	2,996	0·59	3·90	7·95
8. Uttar Pradesh*	569	60,099	7·76	12·06	14·09
9. West Bengal	921	67,975	6·48	13·32	69·50
Total ..	3,966	501,368	178·00	553·15	1373·91
PART 'B' STATES					
1. Hyderabad ..	191	125,333	38·16	51·45	269·49
2. Madhya Bharat	157	3,708	0·37	1·32	4·11
3. Mysore	116	15,399	2·90	7·20	N.A.
4. PEPSU	80	1,648	0·49	0·52	6·01
5. Rajasthan	412	18,471	2·96	38·39	14·78
6. Travancore-Cochin ..	108	17,249	2·02	6·35	48·50
7. Saurashtra	88	2,293	0·30	1·20	2·50
Total ..	1,152	184,101	47·20	106·43	345·39
PART 'C' STATES					
1. Ajmer	33	646	0·06	0·17	N.A.
2. Delhi	3	39	0·03	0·05	N.A.
Total ..	36	685	0·09	0·22	—
Grand Total..	5,154	686,154	225·29	659·80	1719·30

@ Includes 7 hosiery workers' societies.

* Data relate to the year 1949-50

N.A.—Not available.

APPENDIX XVII—(*contd.*)

	Other Industrial Societies				
	No. of societies	No. of members	Share Capital paid-up	Working Capital	Sale of finished goods
			Rs. lakhs	Rs. lakhs	Rs. lakhs
PART 'A' STATES					
1. Assam	21@	794	0·28	1·86	2·91
2. Bihar	104	3,430	0·70	1·17	3·11
3. Bombay	776	57,346	24·88	104·11	77·13
4. Madras	279	31,159	8·36	26·28	40·69
5. Madhya Pradesh ..	88	3,849	1·65	5·71	13·13
6. Orissa	261	21,250	2·69	9·67	31·05
7. Punjab (I)	141	1,992	1·22	6·02	9·51
8. Uttar Pradesh*	69	3,538	1·73	13·03	17·62
9. West Bengal	185	6,691	0·87	3·71	5·44
Total ..	1,924	130,049	42·38	171·56	200·59
PART 'B' STATES					
1. Hyderabad	58	1,338	2·24	4·54	3·45
2. Madhya Bharat ..	40	481	0·33	2·66	2·76
3. Mysore	20	1,018	0·80	0·12	0·40
4. PEPSU	10	215	0·10	0·25	1·07
5. Rajasthan	149	5,171	1·11	3·72	4·89
6. Travancore-Cochin ..	43	8,269	1·27	3·26	4·21
7. Saurashtra	97	2,293	1·20	7·00	2·08
Total ..	417	18,785	7·05	21·55	18·86
PART 'C' STATES					
1. Ajmer	23	330	0·36	2·21	N.A.
2. Delhi	134	2,746	3·04	9·86	16·50
Total ..	157	3,076	3·40	12·07	16·50
Grand Total ..	2,498	151,910	52·83	205·18	235·95

@ Most of them are in a moribund state.

* Data relate to the year 1949-50.

N.A.—Not available.

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